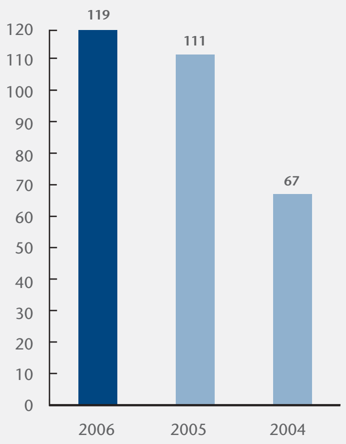
PHÖNIX
SonnenStrom AG

Annual Report 2006

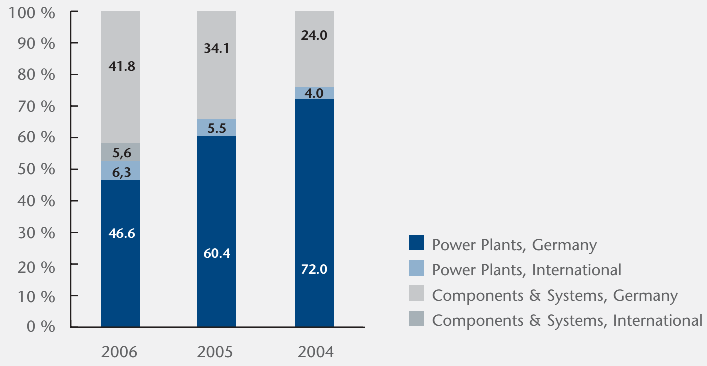
Total sales revenue 2006

In € m



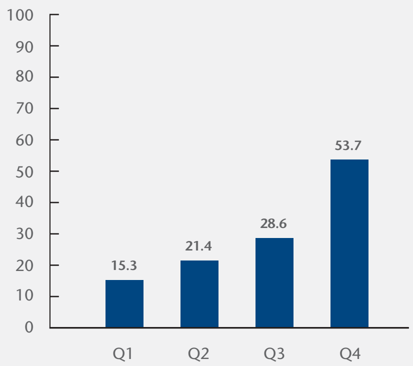
Revenue Share of Business Segment 2006

in %



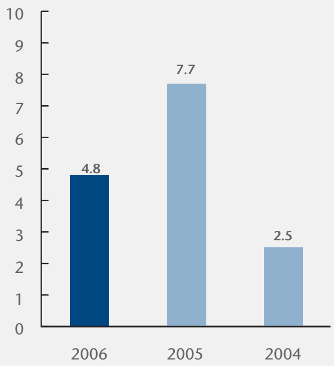
Quarterly Sales Development 2006

In € m



EBIT 2006

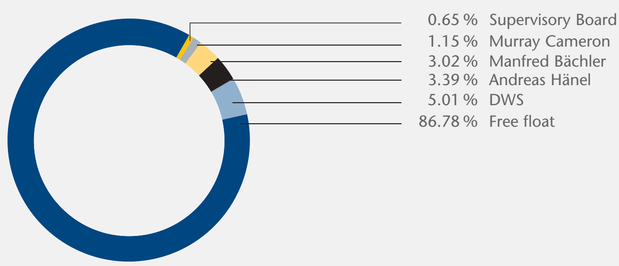
In € m



Price performance in 2006

of the PHÖNIX SonnenAktie®
(share) in euros on XETRA®

Shareholder Structure in 2006



Phönix SonnenStrom AG at a glance

Consolidated Financial Statements pursuant to IFRS

Reporting date / period		31/12/2006	31/12/2005
Balance sheet			
Total assets	T €	54,009	36,331
Equity	T €	33,346	23,244
Equity ratio	%	62	64
Return on equity	%	9	21
Results			
Total sales revenue	T €	118,994	111,116
EBIT	T €	4,786	7,711
EBIT margin	%	4.0	6.9
Net profit for the year	T €	3,024	4,950
Employees			
Employees**	number	101	71
Sales per capita***	T €	1,352	1,778
Phönix SonnenAktie®			
No-par-value bearer shares		6,077,000	5,525,000
Earnings per share*	€	0.55	0.92
Closing price at year-end	€	16.00	15.88
Market capitalisation	T €	97,232	87,737

* undiluted and diluted earnings
** average employee number, including part-time and temporary staff
*** full-time equivalent

2006
Annual Report

2006

This is an English translation of the German original.
Only the German version is binding.

ONLY WHEN YOU GO SHOPPING DO YOU REALLY GET TO KNOW A COUNTRY

"German cars or football are a familiar concept in China of course. But what I have noticed since living in Germany is how many different types of bread there are. Mixed bread, white bread, rye bread, multi-grain and wholemeal bread: the choice really took me by surprise at first. And then if you buy it from different bakers, the same bread even tastes different! When we buy our modules we don't have quite as much choice as we do with bread. However, our choice is very important – after all, our taste should make our customers happy as well."

CHENG LIU
Employee in Procurement
and Purchasing
Born in China

Dear Shareholders,

The Board of Directors (from left to right)
Dr. Andreas Hänel
Dr. Murray Cameron
Sabine Kauper
Manfred Bächler

In October 2006, Sir Nicolas Stern, World Bank chief economist from 2000 to 2003, published his report on "The Economics of Climate Change". In this report, he raised the awareness of the climate change, in particular by drawing attention to its huge economic impact. According to Stern, effective climate protection costs one percent of global GDP. Failure to protect the climate, however, will cost between five and twenty times as much.

Consequently, Stern calls for a radical reduction of greenhouse gas emissions, especially of carbon dioxide, through conserving and using energy more efficiently and through deploying new low-carbon technologies to generate energy. This puts renewable energies in an even more important and attractive light. According to Stern, the market for carbon-low energy generating technologies will be worth at least EUR 500 billion by the year 2050. And, now that the EU has resolved ambitious goals for the lowering of CO_2 emissions and given that renewable energies are to contribute 20 percent to primary energy generation by 2020, no one can be in doubt as to the necessary political will: The way has been paved for the global expansion of renewable energies.

In Germany the tools for a successful market introduction of photovoltaics have already been created in the form of the Renewable Energy Act. In 2006 a number of other countries again followed this example. France and Greece, for instance, have now decided on models based on the German Renewable Energy Act to promote the efficient and cost-effective introduction of photovoltaics. In the wake of this development, the trend towards the internationalisation of the photovoltaic market is set to continue.

In Germany, 2006 was a difficult year for photovoltaics, owing to the initially high price of modules and systems. Towards the end of the year, however, the prices fell considerably and economic viability has been restored. As a systems specialist independent of manufacturers, Phönix SonnenStrom will benefit from this price trend. This view is supported by our business performance in 2006: we succeeded in increasing sales, which were boosted in particular by growth in the last two quarters of the year, in a difficult market environment and once again closed the year with very positive overall result. We owe this success first and foremost to our employees who have untiringly given their best to master a difficult situation. Our sincere thanks go to them. With this kind of team spirit and performance, we will see a repeat of this success in 2007. Our sales target is EUR 200 million this year – and we are well on the way!

Phönix also distinguished itself in the last financial year in another way: For the second time in a row, we were among the winners of the Bayerns Best 50 and Europe's 500 competitions. We were especially delighted to have been awarded the Bavarian prize for start-ups in 2006 in the "Visionary" category. This award is proof that Phönix is recognised and acclaimed as a future-oriented company.

To promote the energy of the future and use the opportunities of rising global demand for photovoltaics, we must continue to strengthen our international market position. In this process as well, Phönix SonnenStrom had three successes in 2006: We are now present in the Italian market through our participation in RED 2002 and, through our founding of Phoenix Energía Solar in Spain and Phoenix Solar in Singapore, have gained access to two more regions with huge potential for photovoltaics.

The Group's growing international orientation is already visible in the sharp increase in our international sales, which rose from 4 percent in 2004 to 5.5 percent in 2005 and have now reached 12 percent. A large part of these sales were attributable to our power plant construction business which made a very successful entry into the Spanish market with a megawatt project. You will find more information on our first Spanish solar park built near Toledo in this annual report.

How international Phönix SonnenStrom has become is also evident in the different nationalities represented in our staff. In this annual report, we would like to introduce some of these people to you as our valued shareholders. You will be surprised at the views on living and working in Germany held by these colleagues who all have very different backrounds. And you will discover that all these "Phönixes" with their different personalities and tasks have something in common. They – and all of us – want one thing: To make energy together.

With best and sunny wishes

Dr. Andreas Hänel
(CEO and Chairman
of the Board of Directors)

Manfred Bächler
(Chief Technology Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Sabine Kauper
(Chief Financial Officer)

"Current results show that we are on the right track with our internationalisation. In 2006, around 12 percent of our sales were generated abroad, which means that we exceeded our target of 10 percent. This year we want to raise the share of our international business to more than 20 percent and our target is to reach 50 percent by 2010. The cornerstone for our global expansion was laid in 2006 through the founding of our subsidiaries in Spain and Singapore as well as a participation in Italy. To promote our internationalisation, we consistently analyse foreign markets and their commercial potential. In this process, we are currently focusing on European and Asian countries with a supportive market introduction programme for photovoltaics, but also on the USA where a number of attractive programmes have already been launched."

DR. ANDREAS HÄNEL, CEO and Chairman of the Board on the subject of "Internationalisation".
Responsible for strategy, sales in Europe and corporate communications

”Our international power plant projects will be an important factor determining the future of Phönix on a long-term basis. The implementation of projects outside of Germany is a very special challenge. Apart from the geographical distance, bureaucratic hurdles, the different general conditions of the subsidy programmes and the differences in culture have an effect on how the project develops and is implemented. A company must therefore adapt and find ways of working together which suit everyone involved. Strong, local partners with in-depth knowledge of the local environment, open cooperation based on trust right from the start and, above all, staying power are important prerequisites for success in the international project business.”

MANFRED BÄCHLER, Chief Technology Officer, on the topic of ”Project development abroad”.
Responsible for technology & innovation, power plant construction, quality assurance and project development

"Phönix SonnenStrom was founded at the end of 1999 and started its business with two people. Today the Phönix Group employs almost 100 people. Meanwhile we speak seven languages and are represented in four countries on two continents! This swift development is a challenge which personnel management has to meet. We have to explore new paths to fulfil the needs of a company with international operations. It is important to find top people with the requisite experience who are rooted in the respective market and work closely together with local partners and the authorities. Our growth begins with qualified employees. Commitment, passion for photovoltaics and a hands-on mentality are characteristics which our employees bring to their work."

SABINE KAUPER, Chief Financial Officer on the topic of "Personnel development". Responsible for accounting, controlling, treasury, law and contracts and personnel

”The setting up of our subsidiary in Singapore has laid the foundations for our entry into the Asian market and underscores the relevance of the Asia-Pacific countries for the growth of the Phönix Group. Although the development of the photovoltaic market in this region has been quite moderate up until now, we see huge expansion potential. The number of PV systems installed is set to have grown sharply by the end of the decade. We intend to participate intensively in this development, not only in our main Power Plants and Components & Systems segments but also in the building of stand-alone systems. A local management team with experience of the region cooperates closely with the parent company in Germany, which brings us closer to our goal of establishing the Phönix Group as a globally active concern.”

DR. MURRAY CAMERON, Chief Operating Officer, on the subject of ”Expansion in the Asian market”.
Responsible for sales Asia, business development, marketing, procurement & purchasing, logistics and IT services

ALL GERMANS RIDE BIKES

”I don't know how many bike paths there are in Spain but probably a lot fewer than in Munich! Here everyone goes by bike, even if it's just around the corner to the bank or the supermarket. It's different in Spain: I guess, for us bikes are more for sports rather than a way of getting around. This can't be due to the weather, however, as Spain certainly has the edge here! But now I notice, particularly when working with our subsidiary Phoenix Energía Solar, that people in Spain are gradually becoming aware that the sun is not only there to give holidaymakers positive energy …”

ROSA D'ACOSTA
Employee in International Business,
Born in Spain

UNDER THE SPANISH SUN

Toledo Solar Park – a megawatt strong start

The international strategy of Phönix SonnenStrom received an impressive confirmation of its effectiveness in 2006. In Corral de Almaguer (near Toledo in Spain) we constructed the Toledo Solar Park, our first megawatt PV plant outside Germany. We have thus established ourselves in Spain, Europe's second largest photovoltaic market, as a leading specialist for the planning and construction of large-scale PV plants. This is a positive signal for the future – and not only for Phönix: With annual savings of around 1,500 tons of carbon dioxide, our solar park will also make a significant contribution to climate protection.

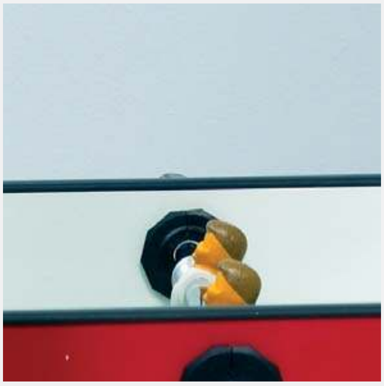
As general contractor, Phönix SonnenStrom was responsible not only for the planning of the whole plant and the electrical circuit diagramm of the solar park, but also for the logistics and the installation of the assembly system and of more than 14,000 solar modules. The assembly system for ground-mounted PV plants, developed by Phönix, has once again proved its worth: even on the difficult rocky terrain in Corral de Almaguer, the system enabled the swift, cost-effective assembly of the complete plant in a mere five weeks.

TOLEDO SOLAR PARK FACTS

Location:	Corral de Almaguer (Toledo), Spain
Customer:	TSK, Gijón, Spain
Total nominal output:	peak output of 1,400,000 kilowatt (kWp)
Annual energy yield:	ca 2,000,000 kilowatt hours (kWh) (corresponds to the energy consumption of around 600 households)
CO_2 saving:	ca 1,500 tons a year
Number of modules:	14,112

Our customer and partner in Spain was TSK Electrónica y Electricidad, an electrical installation company based in Gijón and operating throughout the country. TSK was responsible for all approval procedures required for the project and connecting up the PV plant to the Spanish grid. The Toledo Solar Park, which has a peak output of 1.4 megawatt, can supply up to 600 households with clean energy.

The success of the megawatt Toledo Solar Park project is also evidence of our successful entry into one of the most attractive photovoltaic markets in Europe. Not only the generosity of sun in Spain, but also the compensation rates envisaged under the new Spanish law on feed-in tariffs prompt experts to anticipate swift growth in the market for photovoltaics. We are well positioned for this expansion through our subsidiary Phoenix Energía Solar S.L.



SERIOUSLY ENTHUSIASTIC

"The Germans don't mess around, they're always dead serious, everything's forbidden ... No way! I find that these prejudices are way off the mark. Give them a soccer ball and the fun starts. The last World Cup was the proof: 100 percent pure enthusiasm! And if there isn't enough room for a World Cup tournament, table soccer will do. It is incredible what an effect table soccer can have on team building. The German enthusiasm for soccer is really infectious – I am a total convert. And our team at Phönix is a real winner!"

BRIAN BALLEK
Assistant to the Board
of Directors
Born in the USA

First-time dividend

For the first time in its history, Phönix SonnenStrom AG plans to pay dividend to its shareholders. In view of the sustained growth and another successfully concluded financial year, all shareholders shall receive a share in the profit of EUR 0.10 per PHÖNIX SonnenAktie®.

- **Successful change of Phönix SonnenStrom AG to a new stock exchange segment and admission to official trading (Prime Standard) of the Frankfurt Stock Exchange**
- **Fulfilling of the highest standards in respect of transparency obligations in financial communication**
- **Raising of the share capital by EUR 552,000 to EUR 6,077,000 in December 2006**

PHÖNIX SonnenAktie®

Stock market environment

After a good start to the stock exchange year 2006, equities in Germany tumbled at the beginning of May, and the German DAX index subsequently lost 14 percent. At the end of July, however, there was a gradual recovery which resulted in the DAX gaining 22 percent over the course of the year to reach 6,597 points at year-end, its highest level since 2001.

The trend on the TecDAX, which includes a number of solar equities, was similar. The technology index had risen by more than 20 percent by the end of February, but went into sharp decline as from May, falling to its lowest point for the year in July. The TecDAX closed the year with an increase of 748 points and a growth rate of just under 25 percent.

The shares of ecologically oriented companies performed well also. The NAI (Nature Stock Index) climbed 33 percent to 4,688 points over the course of the year, and the international PPVX (Photon Photovoltaic Stock Index) rose 14 percent to 2,655 points.

Share performance

The PHÖNIX SonnenAktie® (share of Phönix SonnenStrom AG) benefited from the friendly environment on the stock exchange at the start of the year and developed well in the first half of 2006. As against year-end 2005, the price rose by more than 80 percent and peaked at EUR 29.54 on 10 May. In the spring, political tension between the USA and Iran burdened the stock markets, along with concern about further interest rate measures by the European Central Bank and worries about inflation owing to the increase in the price of raw materials. Inevitably, the SonnenAktie® was also unable to escape this pressure. The share price initially fell to EUR 18.50 on 8 June and, after a short phase of recovery with an interim high of EUR 24, dropped to its lowest level for the year of EUR 12.90 on 21 September. On 29 December, the last trading day of 2006, the share price closed at EUR 16, thus posting a gain over the course of the year of 1.4 percent. Market capitalisation (the number of shares times the share price) at year end stood at EUR 97.232 million.

Dividend

In 2007, Phönix SonnenStrom AG plans to distribute a dividend to its shareholders for the first time. The Board of Directors and the Supervisory Board will propose payment of a dividend of EUR 0.10 per share for the financial year 2006 to the Annual General Meeting. The payout ratio comes to just under 10 percent.

Change of segment

At the start of summer 2006, Phönix SonnenStrom AG changed stock market segment. On 27 June, trading activities for all outstanding SonnenAktie® shares, which came to 5,525,000, began on the official market of the Frankfurt Stock Exchange. At the same time, the shares were admitted to Prime Standard, a segment of the official market which entails additional obligations arising from admission. The Board of Directors passed the resolution for the change of segment on 9 June. The securities prospectus pertaining to the change can be found on the company's web site under www.SonnenStromAG.de or obtained directly from the company.

Additional obligations in the Prime Standards segment

- >> Drawing up of financial statements pursuant to IFRS or US GAAP and release within four months following the end of the reporting period
- >> Drawing up of quarterly reports for the first, second and third quarters and release within two months following the end of the reporting period
- >> Release of important dates in a company calendar
- >> Attendance of at least one analyst event a year
- >> Publication of ad-hoc press releases
- >> Publication in German and English

Annual General Meeting

On 7 July 2006, the regular Annual General Meeting of Phönix SonnenStrom AG took place. All items on the agenda were approved with a majority of between 78.29 and 100 percent. Of the share capital 24.60 percent was represented in the voting process. There were no countermotions. The outcome and all important information on the Annual General Meeting can be accessed on the web site of Phönix SonnenStrom AG www.SonnenStromAG.de. The next regular Annual General Meeting of Phönix SonnenStrom AG will be held on 25 May 2007, at Fürstenfeldbruck's Fürstenfeld Event Forum.

The company makes proxies available for shareholders who cannot personally take part in the Annual General Meeting. In addition, the information on the Annual General Meeting which is distributed to each shareholder enables the shareholder to give detailed instructions.

Capital increase

In December, the Board of Directors and the Supervisory Board used the shareholder authorisation to raise the share capital (approved capital 2006). With the exclusion of subscription rights, 552,000 new shares, or just under ten percent of the former share capital, were issued in the capital market. The share capital comes to EUR 6,077,000. Admission of the new shares was granted for 28 December 2006.

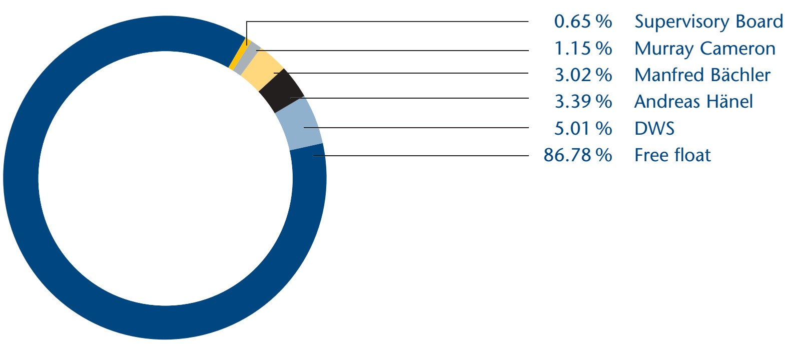
Together with HSBC Trinkaus & Burkhardt AG, Düsseldorf, as Lead Manager and Sole Bookrunner, the new shares were placed with international institutional investors within one day through a process of accelerated bookbuilding. At a price of EUR 13.30 per new share, the issue generated funds of EUR 7.34 million which are to be used to finance company growth and promote the internationalisation of the Group.

Shareholder structure

In the wake of the capital increase, there were 6,077,000 no-par bearer shares outstanding at the end of the financial year. Weighted across the whole year, this results in 5,546,173 shares. There are no shareholders with permanent possession. The Board of Directors and the Supervisory Board jointly hold more than eight percent of the shares.

Since the switch to the new segment in the official market, our shareholders are subject to reporting pursuant to Sections 21 et seq. of the German Securities Trading Act (WpHG). Shareholders who, through purchase or sale either attain, exceed or fall below 3, 5, 10, 15, 20, 25, 30, 50 or 75 percent of the voting rights in a listed stock corporation must report this to the company and to BaFIN, the German financial supervisory authority. Furthermore, the reports must be published internationally.

SHAREHOLDER STRUCTURE IN 2006



Investor Relations

In informing our shareholders our approach to financial communication is proactive; we report on the financial situation, the strategy and the future prospects of the Group. Along with the fulfilment of obligations arising from admission to the respective stock market segment, we stepped up our dialogue with institutional investors and have made contact with new analysts. In a number of road shows as well (trips to institutional investors) in Germany and abroad, we visited many institutional investors.

An important part of our communication is presenting our company at investor conferences. Apart from conferences in Germany, we presented our company to investors at the London Stock Exchange and at the "New Energy Capital Markets Day" in October. Management is also available at conferences for individual discussions.

Activities for assessing the Group and the share in the form of analyst reports also increased: Alongside sector-specific reports by Öko-Invest, Commerzbank and Citigroup, individual reports on our company were made by Goldman Sachs, Deutsche Bank, Frankfurt-based bank Equinet, Independent Research and HSBC Trinkaus & Burkhardt, our designated sponsor.

Comprehensive and up-to-date information specially for investors can be found on our web site www.SonnenStromAG.de, under the heading Investor Relations.

KEY FINANCIAL DATA

of the PHÖNIX SonnenAktie® (share)

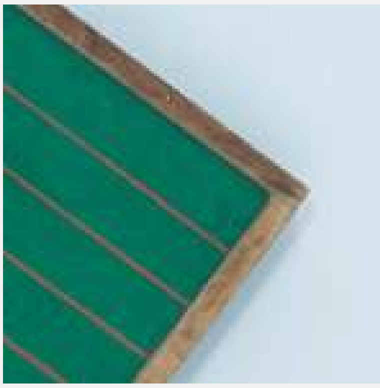
02/01/2006	Daily closing price[1]	€ 15.78
	Market capitalisation[2]	€ 87,184,500
29/12/2006	Daily closing price[1]	€ 16.00
	Market capitalisation[3]	€ 97,232,000
01/01/ – 31/12/2006	High / low[1]	€ 29.54 / 12.90
	Earnings per share	€ 0.55
	Recommended dividend per share	€ 0.10

[1] on XETRA®
[2] number of shares: 5,525,000
[3] number of shares: 6,077,000

KEY DATA
of the PHÖNIX SonnenAktie® (share)

Security code no. (WKN)	A0BVU9
International security code no. (ISIN)	DE000A0BVU93
SE code	PS4
Class of shares	No-par-value bearer share
Number of shares	6,077,000
Share capital	€ 6,077,000
Stock exchange segment	Official market / Prime Standard
Indices	CDAX, Prime All Share, Technology All Share, PPVX
Stock exchanges	Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin / Bremen, Düsseldorf, XETRA
Sector	Industrial, renewable energies
Designated Sponsor	HSBC Trinkaus & Burkhardt AG

PRICE PERFORMANCE IN 2006
of the PHÖNIX SonnenAktie® (share) in euros
on XETRA®



OLD SCHOOL

”Right now it isn't really fashionable to praise our education system and, of course, there is always a lot to criticise and improve on. But my personal experience is that the quality of education here in Germany is better than it is said to be. As a commercial clerk, I was able to do my training at Phönix in a sector which was non-existent ten years ago. In recent years, study courses and vocational training for careers in renewable energies have been established, and young people from all over the world contact us to know more.”

ALEXANDRA BETZ
Personnel assistant
Born in Germany

Committed to our shareholders

In seven meetings held during the financial year 2006, the Supervisory Board assured itself of the responsible management of the company and was at hand to advise the Board of Directors in its most important decisions. After extensive consultation, the Board of Directors and the Supervisory Board have drawn up a Corporate Governance Report in which they explain divergences from the German Corporate Governance Code.

>> First-time preparation of a Corporate Governance Report, with a Declaration of Compliance

>> Publishing of the securities dealing of the Board of Directors and Supervisory Board in PHÖNIX SonnenAktien® (Directors' Dealings)

>> Appointing of a Chief Financial Officer

Report of the Supervisory Board

Report of the Supervisory Board to the regular General Annual Meeting on its audit of the financial statements as at 31 December 2006, on its supervision of management during the financial year and on its statement on the report submitted by the independent auditor pursuant to Sections 171 para. 1 to 3 and 172 para. 1 of the German Stock Corporation Act (Aktiengesetz).

GENERAL INFORMATION

In the year under review, the Supervisory Board met seven times.

The Supervisory Board comprises six members: J. Michael Fischl (Chairman), Ulrich Fröhner (Deputy Chairman), Ulrich Th. Hirsch, Prof. Dr. Klaus Höfle, Dr. Patrick Schweisthal and Prof. Dr. Thomas Zinser.

In the Supervisory Board's meeting on 16 February 2005, an Audit Committee and a Personnel Committee were set up as part of the implementation of the respective recommendations of the German Corporate Governance Code. The Audit Committee members are Prof. Dr. Thomas Zinser, Ulrich Th. Hirsch and Dr. Patrick Schweisthal. The Personnel Committee members are J. Michael Fischl, Ulrich Fröhner and Prof. Dr. Klaus Höfle.

The Audit Committee held two meetings, one of which in the presence of the independent auditor, established key audit areas and discussed interim reports. In addition, it addressed issues concerning accounting and risk management.

The Personnel Committee met twice to address in particular issues relating to the appointing of a Chief Financial Officer, to review the achieving of objectives by the members of the Board of Directors and to discuss the appointing of executives.

In accordance with the resolution passed by the Annual General Meeting, the Chairman of the Supervisory Board mandated the Munich-based auditing company AWT Horwath GmbH, Wirtschaftsprüfungsgesellschaft on 24 July 2006, pursuant to Section 111para. 2, sentence 3 of the German Stock Corporation Act (AktG) and in accordance with the option right under Section 315a para. 3 of the German Commercial Code, to audit the consolidated financial statements and the management report on the basis of the standards laid down under IFRS / IAS. The independent auditor submitted an Auditor's Independence Declaration pursuant to Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

On 23 March 2007, the audit reports of 19 March 2007 were submitted to all members of the Supervisory Board.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS BY THE SUPERVISORY BOARD

The Supervisory Board took timely acceptance of the following:

- the annual financial statements and the proposal for the appropriation of profit by the Board of Directors for the financial year 2006,
- the report by the Board of Directors on the situation of the company in 2006,
- the consolidated financial statements for the financial year 2006 pursuant to the standards laid down under IFRS / IAS,
- the report by the Board of Directors on the situation of the Group in 2006.

The financial statements at company level and the Management Report, along with the financial statements at Group level and the Management Report were audited by the auditing company AWT Horwath GmbH, Wirtschaftsprüfungsgesellschaft. The audit did not give rise to any objections; an unqualified audit certificate was issued.

In a process of ongoing consultation with the Board of Directors, in preparatory discussions of the Audit Committee and through questioning and discussions with the external auditors in the financial statements meeting of the Supervisory Board on 28 March 2007, the Supervisory Board closely examined the annual financial statements and the management reports submitted and is convinced that

- all the components of financial accounting are systematically correct in as much as they form the basis for the annual financial statements;
- the methods for achieving a complete, accurate, timely and systematic storage, processing and recording of accounting data have been duly set in place;
- the system of documentation is well organised, and each individual business transaction can be traced through to its presentation in the annual financial statements and back again;
- having conducted sample checks of the underlying substantiation of assets and liabilities, that they accord with the carrying amounts disclosed;
- in connection with the assessment of uncompleted transactions and information in the Notes to the Financial Statements, the contract register does not give the impression of being obscure or incomplete;
- the statutory rules governing recognition, disclosure and valuation have been complied with and enable an assessment that the annual financial statements give a true and fair view of the net worth, financial position and earnings situation of the company.

The external auditors participated in consultations.

REPORT BY THE SUPERVISORY BOARD ON ITS ACTIVITIES ASSOCIATED WITH MONITORING THE BOARD OF DIRECTORS DURING THE COURSE OF THE FINANCIAL YEAR

In so far as the monitoring activities of the Supervisory Board have not taken place within the scope context of the preparation and examination of the annual financial statements, the monitoring of the Board of Directors is primarily carried out by accepting reports prepared by the Board of Directors and discussing them, as well as discharging the Supervisory Board's duty to advise on an ongoing basis as part of its supervisory obligations pursuant to Section 111 para. 1 of the German Stock Corporation Act.

The key areas of the supervising and advisory activities throughout the period of this Report are as follows:

- development of the corporate strategy and reconciliation of the impact on corporate planning as well as the organisation structure and organisation of workflows,
- founding of the subsidiary Phoenix Energía Solar S.L. in Madrid,
- founding of the subsidiary Phoenix Solar Pte Ltd in Singapore,
- receipt and discussion of the reports prepared by the Board of Directors in accordance with Section 90 of the German Stock Corporation Act on the liquidity and financial position, the intended business policy and other fundamental issues pertaining to corporate planning (in particular, finance, investment and personnel planning),
- monitoring and implementation of the internal control system (risk monitoring and early warning system in accordance with Section 91 of the German Stock Corporation Act) and the information gained therefrom,
- monitoring of the stock market value of the company,
- preparation and execution of the switch to a new stock exchange segment as well as the capital increase,
- acknowledgement of the development of instruments designed to optimise purchasing,
- appointing of a Chief Financial Officer,
- human resource development within the company,
- development of a new corporate image for the company, including the design of a new logo,
- discussion on the progress made by individual business segments and the subsidiaries,
- concept for the market development and sales strategy,
- review and discussion of major contractual problems,
- detailed discussions and passing of resolutions on expansion measures.

Explanations pursuant to Section 171 para. 2 of the German Stock Corporation Act (AktG)

Pursuant to Section 171 para. 2 of the German Stock Corporation Act (AktG), we comment on the necessary information contained in the Management Report on the Company and on the Group pursuant to Sections 289 para. 4, 315 para. 4 of the German Commercial Code (HGB) as follows:

The composition of subscribed capital as well as the rules pertaining to the appointing and dismissal and the remuneration of the members of the Board of Directors and on amendments to the Articles of Association accord with legal provisions and are self-explanatory.

The statements on the Approved Capital 2006 of EUR 2,210,500 and Contingent Capital 2006 of EUR 552,500 are accurate.

The Annual General Meeting of 7 July 2006 authorised the Board of Directors, pending approval by the Supervisory Board, to raise the number of company shares once or several times up to an amount of 10 percent of the share capital, i.e. up to a total of 552,500, via the stock exchange or through a public offer to purchase addressed to all shareholders. This authorisation, valid up until 1 December 2007, has not yet been used.

According to current information, no shareholder holds more than ten percent, either directly or indirectly, of the voting rights of Phönix SonnenStrom AG.

Explanations on issues pertaining to Sections 289 para. 4, 315 para. 4 of the German Commercial Code, specifically:

- Item 2 (restrictions relating to the voting rights or the transfer of shares),
- Item 4 (naming of the shareholders with special rights which confer controlling authority and description of such special rights),
- Item 5 (type of voting right controls if employees participate in the capital and do not exercise their control directly),
- Item 8 (important agreements of the company which are subject to the condition of a control change in the wake of a takeover and the resulting effects), and
- Item 9 (compensation agreements of the company which, in the event of a takeover, have been made with members of the Board of Directors or employees)

are not required, as the respective information did not have to be made in the Management Report on the Company and the Group.

STATEMENT ON THE REPORT OF THE INDEPENDENT AUDITOR

In its meeting on 28 March 2007, following the prescribed formal consultation with the independent auditor, the Supervisory Board resolved the following statement on the report of the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act:

Based on its own examination, the Supervisory Board acceded to the results of the audit carried out on the annual financial statements and the Management Report at Company level and at Group level by the independent auditor who has issued an unqualified audit certificate. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the annual financial statements as at 31 December 2006 were ratified by the Supervisory Board in its meeting on 28 March 2007, and are thereby adopted.

Moreover, the Supervisory Board approves the proposal of the Board of Directors to propose to the Annual General Meeting by way of resolution to distribute EUR 6,088,916.66 by way of dividend payout amounting to EUR 0.10 per share and to carry forward the balance sheet profit of EUR 5,481,216.66 to new account.

Furthermore, the Supervisory Board ratifies the consolidated financial statements as at 31 December 2006 and the Management Report on the Group for the year 2006.

Sulzemoos, 28 March 2007

J. Michael Fischl
(Chairman of the Supervisory Board)

The Supervisory Board (from left to right): Prof. Dr. Klaus Höfle, Prof. Dr. Thomas Zinser, Dr. Patrick Schweisthal, Ulrich Fröhner (Deputy Chairman of the Supervisory Board), J. Michael Fischl (Chairman of the Supervisory Board), Ulrich Th. Hirsch

GERMANY FOR ME IS THE FUTURE

"I have lived in Munich since 2003 with my German wife and our son Tom. So, for purely private reasons, Germany is the future. But, apart from this, there is a lot in Germany which points the way to the future – only the Germans don't seem to notice it sometimes! German environmental awareness has meanwhile become an export block buster. A few years ago, it had more the effect of bringing a smile to the faces of many of the British – but today they have got the message. It is the same with photovoltaics: Germany was ahead of the times in its use – and now, with so many countries in tow, it has huge opportunities. So, both as marketing manager of Phönix and father of Tom, for me Germany is the future."

DARREN THOMPSON
Head of Marketing
Born in Great Britain

Corporate Governance Report

FOREWORD

The Board of Directors and the Supervisory Board of Phönix SonnenStrom AG are committed to good and responsible management of the company. The guidelines laid down in the German Corporate Governance Code (GCGC) are cornerstones of our corporate governance system. Through the structures anchored within the company, they contribute to the sustained enhancing of enterprise value and are thus an important factor for the success of the company. In addition, they enable increased transparency for capital market operators, customers, employees and the public. The GCGC fosters confidence in the company and its activities on the capital market.

In the wake of the change of the stock market segment to the official market (Prime Standard) on 27 June 2006, Phönix SonnenStrom AG is obliged once a year to document in a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) to what extent it fulfils or has fulfilled the principles of the German Corporate Governance Code. Upon careful review, the Board of Directors and Supervisory Board have approved this first Declaration of Compliance.

Furthermore, in accordance with Code item 3.10, this is the first time that the Board of Directors and the Supervisory Board have drawn up a Corporate Governance Report. This report also contains information on the remuneration system of the Board of Directors and the Supervisory Board.

DUAL STRUCTURE OF MANAGEMENT

Pursuant to the legal provisions of the German stock corporation law, the management and control of the company is the task of the executive bodies of the Board of Directors and the Supervisory Board.

Since 1 January 2007, the Board of Directors has consisted of four members and heads up the company under its own responsibility. In carrying out its duties, it is obliged to act in the best interest of the company and to sustainably raise its enterprise value. The Board of Directors coordinates the strategic approach with the Supervisory Board and provides information on the implementation of this strategy at regular intervals. As part of an ongoing dialogue, the Board of Directors submits monthly reports on the extent to which goals have been achieved and any divergences.

The Supervisory Board supervises the Board of Directors in its task of managing the company and advises the latter. The number of employees of Phönix SonnenStrom AG is below the threshold defined by law for co-determination as represented by the Supervisory Board. For this reason, this executive body with its six members does not include an employee representative.

The independency of the Supervisory Board is ensured. Accordingly, no member of the Supervisory Board maintains personal or business relationships with the company or with the Board of Directors which could give rise to a conflict of interest. Extensive exchange of information between the Supervisory Board and the Board of Directors is ensured. Both executive bodies work closely together to promote the company.

FURTHER COMPONENTS OF CORPORATE GOVERNANCE

In order to raise efficiency and handle complex issues, the Supervisory Board has set up two committees by way of resolution dated 16 February 2005. Each Supervisory Board member currently exercises a mandate on behalf of a committee.

The Audit Committee has three members: Prof. Dr. Thomas Zinser, who acts as Chairman, Ulrich Th. Hirsch and Dr. Patrick Schweisthal. Among other duties, the Audit Committee determines the key audit areas with the independent auditor in relation to the annual financial statements and discusses the interim financial statements. In the past financial year, the Audit Committee held a meeting on 19 October.

The Personnel Committee also consists of three members in the persons of J. Michael Fischl (Chairman of the Supervisory Board and of the Personnel Committee), Ulrich Fröhner and Prof. Dr. Klaus Höfle. The tasks of this Committee include establishing objectives agreements for members of the Board of Directors, the analysis of the degree to which goals have been achieved and the preparation of contracts for the members of the Board of Directors. The Personnel Committee held two meetings during the period under review, on 23 October and 24 November.

As regards financial communication, the change of the company to a new stock exchange segment in the official market (Prime Standard) of Deutsche Börse AG placed additional reporting obligations on the company. These include the preparation of quarterly reports, the release of information on Directors' Dealings and the observance of ad-hoc reporting. All the information required can be found under the Investor Relations heading on the web site of Phönix SonnenStrom AG.

The share option plan 2006, newly resolved by the Annual General Meeting of 7 July 2006, extends the remuneration system, as recommended by the Code, to include a variable component with a long-term incentive effect and risk character. More detailed information on this share option scheme can be found in the remuneration report.

DIRECTORS' DEALINGS

Since the application for admission of the shares to the official market up until the end of the reporting period, securities dealings within the meaning of Section 15a of the German Securities Trading Act (Directors' Dealings) of Manfred Bächler (Chief Technology Officer), Dr. Andreas Hänel (CEO and Chairman of the Board) and Dr. Patrick Schweisthal (Supervisory Board member) have been listed, as follows.

Date	Name	Units	Share price in €	Transaction volume in €	Stock market	Buy / Sell
20/11/2006	Manfred Bächler	1,000	14.20	14,200.00	Frankfurt	Buy
16/11/2006	Manfred Bächler	1,000	14.08	14,080.00	XETRA	Buy
11/09/2006	Manfred Bächler	1,000	16.10	16,100.00	XETRA	Buy
21/08/2006	Manfred Bächler	380	16.10	6,118.00	XETRA	Buy
16/08/2006	Manfred Bächler	1,000	16.50	16,500.00	XETRA	Buy
11/08/2006	Manfred Bächler	975	17.39	16,955.25	XETRA	Buy
11/08/2006	Manfred Bächler	25	17.40	435.00	XETRA	Buy
11/08/2006	Dr. Andreas Hänel	200	17.00	3,400.00	XETRA	Buy
11/08/2006	Dr. Andreas Hänel	150	17.00	2,550.00	XETRA	Buy
08/08/2006	Dr. Patrick Schweisthal	2,250	21.05	47,362.50	XETRA	Sell
08/08/2006	Dr. Patrick Schweisthal	300	21.06	6,318.00	Berlin-Bremen	Sell

SHAREHOLDINGS

The following members of the Board of Directors hold more than one percent in the shares issued by the company (as per 31 december 2006):

Board of Directors	Units	Holding %
Dr. Andreas Hänel	206,100	3.39
Manfred Bächler	183,530	3.02
Dr. Murray Cameron	69,750	1.15

As the fourth member of the Board of Directors, Sabine Kauper does not hold any shares in the company. Within the Supervisory Board, three members hold shares in the company as follows: Ulrich Fröhner (30,600 shares, 0.5 percent), Dr. Patrick Schweisthal (5,450 shares, 0.09 percent) and Prof. Dr. Klaus Höfle (3,500 shares, 0.06 percent).

The total holdings of the Board of Directors come to 7.56 percent of the capital issued and that of the Supervisory Board to 0.65 percent. Both executive bodies together thus hold shares of 8.21 in the company.

REMUNERATION REPORT

The remuneration of the Board of Directors and the Supervisory Board of Phönix SonnenStrom AG is geared to the scope of responsibility and the tasks of the individual and always takes account of the economic situation and performance of the company. No payments are made to former executive body members.

The structure of the remuneration system of the Board of Directors accords with the recommendations of the German Corporate Governance Code and consists of a fixed and a variable component. The variable components depend on the performance of the company. Along with fixed quantitative objectives, qualitative criteria defined by the Supervisory Board are agreed in individual discussions on objectives with the members of the Board of Directors. During the year there is at least one objectives feedback round prior to establishing, at the start of the following year, to what extent the objectives have been met. Other components of the remuneration system are explained in detail in the Management Report. A table of the total remuneration and itemised disclosure of the remuneration of the Board of Directors is contained in the Notes to the Consolidated Financial Statements.

Furthermore, there are no commitments given to the Board members in the event that their activities should end. A so-called change-of-control clause is not part of the existing contracts. In the event of death, dependents will receive payment of the salary for a period of six months. No other pension commitments have been made.

In order to comply with the recommendations of the Code for a component with a long-term incentive effect and risk character, the Annual General Meeting of 7 July 2006 resolved a share option scheme defining subscription rights to the shares of Phönix SonnenStrom AG. The scheme is to run until 1 July 2011 and comprises a maximum of 552,500 bearer shares of Phönix SonnenStrom AG. Subscription rights of the members of the Board of Directors have been restricted to a maximum of 221,000 shares. Shares issued determined by the Board of Directors must be ratified by the Supervisory Board. The tranches are allotted within a period of 14 calendar days, starting 14 calendar days after the release of a quarterly or annual report. The subscription price is calculated from the average of the closing price of the share (in XETRA trading) and the five trading days preceding the allotment. The subscription rights can be exercised under the following conditions:

- At the earliest after a holding period of two years after the date of issue, within a period of five years starting from this date. Exercising, however, is not possible within a period of 14 days prior to the release of quarterly reports and during a blocked period which runs from the end of the financial year until the release of the results of the previous financial year;

- If the closing price in the first year when rights can be exercised exceeds the exercise price by 40 percent on 10 consecutive trading days. In the subsequent years of the exercising period, this figure must then be exceeded by another 20 percent respectively;

- If, at the time of exercising, there is a valid employment contract with the company.

A tranche allotment within the share option scheme has not yet been carried out but is planned for the financial year 2007.

The remuneration of the Supervisory Board was adjusted fundamentally to meet the requirements of the German Corporate Governance Code at the Annual General Meeting held on 7 July 2006. Remuneration has been laid down under Section 11 of the Articles of Association of Phönix SonnenStrom AG and comprises both a fixed component and a component geared to the long-term success of the company. This has also been explained in the Management Report.

Loans by the company to members of the Board of Directors or the Supervisory Board have not been extended. Information on total remuneration and an itemised listing of total remuneration are included in the Notes to the Consolidated Financial Statements.

JOINT DECLARATION OF COMPLIANCE

by the board of Directors and the Supervisory Board of Phönix SonnenStrom AG on the German Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Board of Directors and the Supervisory Board are obliged once a year to declare that the recommendations of the Government Commission on the German Corporate Governance Code have been and will be complied and which recommendations are not and will not be complied with.

The Board of Directors and the Supervisory Board of Phönix SonnenStrom AG herewith declare that the recommendations of the Government Commission on the German Corporate Governance Code in the version dated 12 June 2006 have been complied with from the period from 27 June 2006 (listing on the official market (Prime Standard) of the Frankfurt Stock Exchange) up until 31 December 2006, with the following exceptions:

2.3.2 The company shall inform all domestic and foreign financial services providers, shareholders and associations of shareholders who, in the preceding 12 months, have requested such notification, of the convening of the Annual General Meeting, together with convention documents, upon request, also using electronic media.
Reason: Up until this date, this had not been laid down in the Articles of Association. A proposal for an amendment to the Articles of Association will be submitted to the Annual General Meeting in 2007 for resolution.

3.8 If the company takes out a D&O insurance (directors' and officers' liability insurance) for the Board of Directors and the Supervisory Board, a suitable deductible will be agreed.
Reason: In the current D&O insurance taken out for the Board of Directors and the Supervisory Board, no deductible has been agreed. The instrument of a deductible in the settlement of a claim as part of the D&O insurance is, in our opinion, not suitable for underpinning executive bodies' motivation to act diligently. Moreover, accountability under German criminal law of the individual executive body member for wilful negligence or betrayal of confidence remains unaffected, regardless of the form which the D&O insurance takes.

4.2.3 […] In particular stocks of the company with a multi-year blocking period, share options or comparable instruments (e.g. phantom stocks) serve as variable compensation components with long-term incentive effect and risk elements. Share options and comparable instruments shall be related to demanding, relevant comparison parameters. Changing such performance targets or comparison parameters retrospectively shall be excluded […]

Reason: In our opinion, changing performance targets or comparison targets retrospectively is possible if unmistakably clear external influences make this necessary. Such influences may, for example, arise from changes in the tax or legal environment which were not discernible as to their amount or when they would occur.

4.2.3 […] The Chairman of the Supervisory Board shall outline the salient points of the remuneration system and any changes thereto to the Annual General Meeting.
Reason: The explanations on the remuneration system will be given for the first time on the occasion of the speech of the Supervisory Board Chairman during the Annual General Meeting 2007.

5.1.2 The Supervisory Board appoints and dismisses the members of the Board of Directors. Together with the Board of Directors, it shall ensure that there is long-term succession planning.
Reason: The executive body will concern itself at a future time with the issue of succession. Up until now there is no urgent necessity to act owing to the age structure of the Board of Directors. For this reason, no formalised process has been initiated to date.

5.1.2 […] An age limit for the members of the Board of Directors shall be specified
Reason: In our opinion, placing a limit on age unnecessarily restricts the search for a qualified and experienced candidate for the Board of Directors. Age is not an appropriate criterion for excluding a candidate.

5.4.1 […] The international activities of the enterprise, potential conflicts of interest and an age limit to be specified for the members of the Supervisory Board shall be taken into account.
Reason: Similar to an age limit imposed on members of the Board of Directors, we consider qualifications and experience to be the determinant criteria for members of the Supervisory Board. Furthermore, a limit on age would restrict the right of the Annual General Meeting to appoint members to the Supervisory Board in an inappropriate manner.

5.4.3 Elections to the Supervisory Board shall be made on an individual basis. […]
Reason: The last election to the Supervisory Board took place before the change of stock market segment. The introduction of this election procedure has been planned for the next date of election.

5.4.7 Remuneration of the members of the Supervisory Board is specified by way of resolution of the Annual General Meeting or in the Articles of Association. It takes account of the responsibilities and the scope of tasks of members of the Supervisory Board as well as the economic situation and performance of the company. Also to be considered here shall be the exercising of the Chair and the Deputy Chair positions in the Supervisory Board as well as the chair and membership of the committees.
Reason: Membership and chair in the committees is not taken account of separately in remuneration. In contrast to a pure bonus for membership, the

members of the committees receive remuneration for meetings which we consider to be appropriate in securing committed cooperation.

7.1.2 […] The consolidated financial statements shall be publicly accessible within 90 days of the end of the financial year; interim reports shall be publicly accessible within 45 days of the end of the reporting period.
Reason: All interim reports of the first full financial year following the change of the stock exchange segment will comply with the requirements of this Code. In order to publish consolidated financial statements for the year of a high quality, the annual report will be released within four months after the end of the reporting period in accordance with Section 62 of the Exchange Rules and Regulations of the Frankfurt Stock Exchange.

Phönix SonnenStrom AG
Sulzemoos, 28 March 2007

On behalf of the
Board of Directors

Dr. Andreas Hänel
(Chairman of the Board of Directors)

On behalf of the
Supervisory Board

J. Michael Fischl
(Chairman of the Supervisory Board)

QUALITY CONVINCES

"I find that quality is very important in Germany. Everything has a quality seal and quality standards – and a lot of importance is placed on keeping to these standards. A qualification, such as my training as a certified expert for the transport of goods, is worth something. And if a standard is used to determine the quality of a product, and it is reliable, this is good for our international business as well. I think that we really have an advantage here."

OKAN ENDICAN
Employee in Logistics,
Born in Germany

International success

Phönix SonnenStrom became more international in 2006 - and not only by founding new subsidiaries. Thanks to first operational successes, such as the completion of a photovoltaic plant in Spanish Toledo, the international sales of Phönix more than doubled in 2006. The Group's strategic building up of supplier relationships and the consistent enhancement of competitive advantage have created the basis for more growth.

>> International business contributed 12 percent to sales, 3.8 percent from the Spanish subsidiary Phoenix Enería Solar alone

>> Broadening of the supplier base by including two Chinese and two Japanese manufacturers of crystalline modules

>> Raising of the share of thin-film modules to just under 50 percent

>> Signing of a long-term framework agreement with First Solar, a manufacturer of thin-film modules

Management Report on the Group

for the financial year
from 1 January 2006 until 31 December 2006

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PREFACE

This report is a description of the business performance of the Phönix SonnenStrom Group in the financial year 2006. Alongside Phönix SonnenStrom AG, the parent company, the Group comprises the subsidiary Phönix Projekt & Service AG and the latter's subsidiary Phönix SonnenFonds Verwaltungs GmbH, as well as the Spanish subsidiary Phoenix Energía Solar S.L., Madrid, founded in the financial year 2006. The consolidated financial statements were prepared pursuant to the International Financial Reporting Standards.

The parent company Phönix SonnenStrom AG was founded on 18 November 1999 and, on 7 January 2000, it was entered into the Register of Companies of the District Court of Munich under HRB no. 129117.

The names "Phönix SonnenStrom" and "Phönix Group" are used synonymously in this report and, respectively, represent the four affiliated companies. If the name of Phönix SonnenStrom AG is mentioned exclusively, the statement in question is relevant to the parent company only.

1. GENERAL CONDITIONS

1.1 Macroeconomic trends

In the year 2006, global growth accelerated. The real gross domestic product of the world's most important economies rose by an estimated 3.5 percent as compared with 3.1 percent in the previous year. The greatest economic engine was the euro zone where overall economic performance, which stood at 2.7 percent in 2006, increased at a rate not seen since the turn of the century. Buoyed by brisk demand for capital goods, employment levels rose discernibly which, in turn, boosted private consumption. The economies of France and Italy were below average whereas that of Spain kept up its dynamic growth rate; in Germany the economy improved considerably.

Adjusted for price effects, the growth of the German economy in 2006 was substantially higher (+ 0.9 percent) than in the previous year. Growth stimulus came from within Germany as well as from abroad. The increase in gross capital investment in Germany was particularly strong: Investments in capital goods were much higher (+ 7.3 percent) than in 2005, and investment in construction rose by 3.6 percent after a long period of recession. The government increased its consumption by 1.7 percent, and private consumption grew in 2006 by 0.6 percent after two years of virtual stagnation. On the one hand, rising energy prices hamp-ered a stronger economic recovery in 2006 but, on the other hand, private consumption benefited from an improvement on the labour market: The number of employed climbed by a marginal 0.7 percent, and the disposable income of private households increased by 1.7 percent. All in all, the German economy recorded the strongest recovery in 2006 since the boom year of 2000.

1.2 Development of the photovoltaic sector

As in the preceding years, 2006 was characterised by a shortage of solar silicon needed for the manufacturing of crystalline solar modules. The high prices of this raw material caused production costs for wafers, cells and solar modules to rise and, ultimately, led to an increase in the price of photovoltaic systems. Owing to the scarcity of resources, the global market for solar modules grew by approximately 14 percent to 1.45 gigawatt according to the conservative estimate of the European Photovoltaic Industry Association (EPIA). This growth is below the long-term median of more than 25 percent. We anticipate that the hurdles will be overcome in the years ahead. A swift building up of capacities across the whole value chain through to the production of crystalline modules, in particular for solar silicon, is already well under way.

After a period of more than two years, during which the prices of solar modules rose, they peaked in 2006. This was caused by strong global demand which outstripped the supply of modules in the years 2004 and 2005. The German market as the world's largest market exerted a major influence on the development of the industry. Initially, prices rose here as well – against the intention of the provisions laid down in the German Renewable Energy Act (EEG). Declining returns from investments in photovoltaic facilities caused demand in Germany to slow. As from the second quarter of 2006, prices for solar modules and whole systems went into decline, which virtually offset the higher price levels of the years 2005 and 2006. This process of market normalisation led to the solar market stagnating at a high level.

From a macroeconomic standpoint, the year 2006 was extremely successful. In Germany alone, sales came to EUR 3.7 billion. The number of jobs in the German renewable energies sector rose to 170,000, of which 35,000 were created in solar companies (photovoltaics). The number of jobs in the solar sector has meanwhile attained the level of some of the sectors which operate in more conventional sourcing of energy.

1.3 Procurement market / suppliers

Towards the end of the year, the availability of modules on the global procurement market improved. Prices were lowered gradually over the course of the year, and the first module producers signalised that prices could fall further, thus securing the economic viability of photovoltaic systems.

Nonetheless, we are still not entirely convinced that the problem of long-term product availability has been solved. In our opinion, the situation should ease considerably in 2008 at the earliest. Watching the market carefully in respect of the trend of module availability and the improvement of the company's own procurement and supply situation therefore remain future priorities in promoting the development of the Phönix Group.

The main reason for the supply bottlenecks in recent years in the photovoltaic industry was the lack of polycrystalline raw silicon for the production of pure silicon ingots. These ingots, once they have been processed to make wafers, are the basic material for photovoltaic cells. In 2004 and 2005, the shortage triggered an increase of more than 500 percent in the price of silicon per kilo. At present, the situation is beginning to ease.

The dearth of silicon, however, paved the way for manufacturers of thin-film modules. The production of thin-film modules uses considerably less of this scarce material than crystalline modules do. Indeed, there are a number of technologies which can do without using any silicon at all. Production capacities in this field have also been considerably expanded since 2005. In the year 2006, this trend picked up momentum. We believe that it will gather pace worldwide and that the market share of thin-film modules will increase significantly in the coming years.

1.4 Sales market / demand in Germany

The development of the domestic market in 2006 was determined by three factors in the main: the weather, the price trend and reporting in the media.

In the first quarter, the long winter was a hindrance to the assembly of photovoltaic systems in many parts of Germany. At the same time, some module manufacturers raised their prices again at the start of the year. This and preceding price increases made the return on investment in photovoltaic systems uninteresting for many investors. As from the end of the second quarter and up until the end of the year, the media's advice on numerous occasions was not to buy into solar energy facilities, while hinting at possible price reductions. This led to a reticence in purchasing which also made itself felt in our company. The demand of home owners declined and the farmer customer segment failed almost fully in many parts of the country.

This temporary stagnation of sales led to higher levels of inventory. Brisker demand in the third and fourth quarter, coupled with the significant increase in the Power Plant segment, helped scale down inventories towards the end of the year.

1.5 Sales market / international demand

Throughout the world, demand for photovoltaic systems is in an unabated uptrend. According to a conservative estimate of the European Photovoltaic Industry Association (EPIA), made in December 2006, the peak output installed worldwide in 2006 rose by 14 percent to 1,452 megawatt (MWp). The trends, however, varied from region to region. Whereas the Japanese photovoltaic market, a few years ago the largest in the world, virtually stagnated in 2006, the markets in Europe and North America expanded.

In Europe, Spain was the most important market, second to Germany. According to information from EPIA, the total output of photovoltaic systems installed in Spain in 2006 came to 45 MWp. The share of systems with an output of more than one megawatt continues to be very large, whereas the market for smaller systems is still of minor importance.

The market in Italy with 8 MWp is still comparatively small and fell short of the high expectations. The only small share of projects realised stands in contrast to the large number of project applications. We attribute this development in the market to lengthy approval procedures which are necessary even for smaller projects with an output of a few kilowatt (kWp). The numerous project applications, however, are an indication of the great interest in photovoltaic systems in Italy.

In France, the market developed well, expanding to 15 MWp in 2006, which was due to the considerable increase in feed-in tariffs for solar electricity.

The Greek photovoltaic market, with a total of 0.6 MWp installed output, stagnated in 2006 despite a renewable energy act passed regulating feed-in tariffs. As in the preceding years, the bulk of systems installed were stand-alone. The cause of the low volume of installed output lies in a plethora of unclarified details, such as questions about grid connection and feeding into the grid.

The markets in the Benelux countries, Austria and Switzerland are only very small. Of these countries, Belgium is the only one which has passed an attractive feed-in law for solar electricity. Market development in this country, however, will take a little time before sales of any importance can be achieved.

1.6 General conditions in Germany

The legal framework conditions in Germany are stable owing to the German Renewable Energy Act (EEG). As prescribed under this Act, the feed-in tariffs were lowered 5 percent for building-mounted systems and 6.5 percent for ground-mounted systems as per 1 January 2006. The compensation rates were therefore between 40.60 and 56.80 cents per kilowatt hour fed into the grid. On 1 January 2007 as well, the feed-in tariffs for newly installed PV systems fell below the aforementioned percentage rates.

The image and prospects of photovoltaics in Germany are fundamentally still very good. In its study entitled "Solar Energy in 2006", released in December 2006, the Swiss bank Sarasin anticipates that the market volume in Germany will remain positive in the medium term.

According to research carried out by the German Federal Association of Renewable Energies (BEE), solar energy is meanwhile having a braking impact on prices in the electricity sector. The EEG subvention for individual electricity customers fell in 2006 as against the previous year. This fact, combined with the virtually maintenance-free operation of photovoltaic facilities, raised acceptance in the eyes of the general public.

1.7 General conditions in the EU and abroad

In a number of European countries, the feed-in tariffs for solar electricity were either introduced or the existing conditions for solar electricity improved in 2006.

In Spain, in the summer of 2006, the review of the existing feed-in law began. The bill was submitted to the Ministry of Industry at the end of November. If the main features of this bill are accepted and integrated into the new law on renewable energies, this would form a sound basis for the photovoltaic market to grow swiftly in the future as well. The bill provides for attractive compensation rates per kilowatt hour fed into the grid, with payment guaranteed over a period of 25 years, and also regulates feed-in tariffs after this point in time.

In Italy, the review of the legislation on feed-in tariff began in summer 2005. This legislation, with its long and complex approval procedure, did not lead to the market expansion hoped for. The new legislation, which came into force on 24 February 2007, has been designed to simplify this procedure considerably.

In Greece, a feed-in tariff law was passed in 2006 which, similar to the German model, provides for feed-in tariffs per kilowatt hour to be paid over a period of 20 years. Tariffs for the mainland are different from those which apply to the islands where they are higher. The plan is to have a total of 700 MWp of photovoltaic output installed and feeding into the grid by the year 2020. Of this, 500 MWp is to be allocated to the mainland and 200 MWp to the Greek islands. The duration of the act is ten years, with the option of renewal by another ten years. In Greece, however, there is the concern that the practical implementation of the act will be slow as the administrative authorities responsible will be confronted with a slew of applications.

In France, the feed-in tariff was revised in June 2006. The country will now be able to develop into one of the most important solar markets in Europe. However, in France as well, there is unlikely to be a solar boom due to administrative requirements. The German energy agency (dena), however, anticipates that the growth in the market will be sound and sustainable.

Outside Europe, in South Korea, for instance, and in a number of federal states in the USA, attractive subsidy programmes for grid-connected photovoltaic systems have been implemented. California is by far the USA's largest photovoltaic market. The solar initiative announced in California in December 2005 was adopted officially in January 2006. Under this program, USD 2.9 billion will be made available to promote the generating of solar electricity over the next eleven years. The aim is to have raised roof-installed photovoltaic capacity by an output of three gigawatt (GWp) by the year 2017. In South Korea, an aggregated output of 1.3 GWp by 2010 is being targeted through a financing mix made up of investment subsidies and feed-in tariffs.

2. ORGANISATION, STRUCTURE, MANAGEMENT AND CONTROL OF THE GROUP

2.1 Business model

Phönix SonnenStrom AG, founded in November 1999, is a leading systems supplier in the German and European photovoltaic sector. Through the founding of subsidiaries and a strategic participation, the company is meanwhile active in the international arena. Phönix SonnenStrom operates in two complementary business segments: as a wholesaler for grid-connected photovoltaic systems and components through its Components & Systems segment and in the Power Plants segment.

The business model is aligned to delivering customers system solutions which are optimised to suit their individual needs. To this end, the Components & Systems segment offers tailored systems solutions and support in planning, logistics services and additional services (e.g. training). The Power Plants segment provides the necessary planning services right through to the turn-key construction of a plant, with follow-up operation and maintenance. Both business segments are also implemented in the company's international operations.

The Phönix Group with its flexible photovoltaic solutions appeals to a broad customer group. Through its Components & Systems segment, the parent company markets products and services to resellers, for instance, electrical installation businesses, electrical retailers and wholesalers, heating / sanitary and roofer companies, as well as solar retailers. The Power Plant segment counts private customers and local authorities among its customers, as well as investment companies in particular and companies which would like to have photovoltaic systems installed on their premises.

A very dynamic solar market requires all market participants to be extremely flexible. The reasons behind this are swift technological change and rapidly changing customer needs. Phönix SonnenStrom therefore places special importance on a product and services range, which is as broadly based and as innovative as possible. The company sources modules, inverters and other components independently and on a needs basis. In close cooperation with our suppliers and partners, we have committed ourselves to updating and optimising this offering on an ongoing basis in line with market requirements. Despite the persistent shortage of modules, which has lasted right through to the year 2006, we have succeeded in winning further module suppliers. We attribute this success to our special business model, among other factors, and our related market positioning.

2.2 COMPETITIVE ADVANTAGES / STRENGTHS / CORE COMPETENCES

The Phönix Group releases synergies from the link between its two segments. In recent years, for instance, we used our experience in power plant construction to develop and further optimise systems in the Components & Systems segment. Our own knowledge and our close contact with the manufacturers contributed to optimising systems technology and lowering the system costs. The link between the two segments also enables the company to secure the purchasing of modules and other components from manufacturers on a more constant basis.

The basis for our future growth are our competitive strengths:

>> **Phönix SonnenStrom has long-standing experience in the photovoltaic systems business and an established business model**. Given Phönix Solarinitiative's (an initiative of the German Association of Energy Consumers from which the company emerged) early entry into the photovoltaic market in 1998, Phönix SonnenStrom has gathered experience over many years which greatly sharpens our competitive edge. In particular, management is distinguished by its twenty year experience of the sector, by long-standing and established contact with companies, sectoral associations and the relevant research institutes. Right from the start, the company concentrated its business model on systems technology. It thus has special expertise which enables it to offer cost-effective photovoltaic systems optimised in terms of yield, either as standardised ready-to-use solutions or as individually conceived facilities.

>> **As a supplier of a broad-based and innovative product portfolio, Phönix SonnenStrom is flexible and customer oriented.** Its manifold range includes in particular solar modules which are based on different technologies. This means that the Phönix Group is not dependent on a single module technology but can offer photovoltaic systems with different module technologies according to how the market develops. This is a competitive advantage in as much as the company is convinced that future thin-film technologies are set to play a greater role in the market. The cost advantages accruing from these technologies were recognised and taken into account at an early date by Phönix SonnenStrom in the construction of photovoltaic facilities.

>> **Phönix SonnenStrom has extensive expertise in the Power Plants business.** In recent years, a large number of major power plant projects were realised. In this process, the company gained additional technical know-how in relation to planning and the installation of large-scale power plants, in particular the use of thin-film technologies, among other things. The company's firm intention is to raise the efficiency and profitability of large-scale power plants through an intensive exchange of experience with manufacturers aimed at effectively counteracting the cost pressure in the solar industry.

2.3 Strategic objectives

The Phönix Group pursues the objective of securing and strengthening its position internationally as a leading supplier which operates independently from manufacturers in its core competence of photovoltaic systems technology. In achieving this objective, growth rates in sales and module output sold are to be kept above expected global market growth. The Group strives to become more independent from state subsidies for photovoltaics, and thus minimise the risks which arise from the existing dependency. This is to be achieved in particular through lowering costs and through innovations in planning and the construction of systems, through the use of new technologies and forging ahead with internationalisation.

Against this background, Phönix SonnenStrom has set itself the following strategic objectives:

>> **Consistent focusing on its core competence in photovoltaic systems technology**

>> **Internationalisation of operations**

>> **Extending its range of thin-film technologies**

>> **Further cost optimisation in photovoltaic systems which have the ability to generate cheaper solar electricity**

2.4 Opportunities of the Group and of the business model

The business model of the Phönix Group is only comparable with the business models of other listed photovoltaic companies to a limited extent. Phönix SonnenStrom focuses on systems technology. From the viewpoint of management, expanding the company's business to include other technologies for generating electricity from renewable energies, such as wind or biomass, or the manufacturing of upstream products, such as photovoltaic modules, is not expedient for promoting the aims of the company.

In our view, a business model which concentrates on photovoltaic systems technology offers the best growth prospects in the long term. The forecast for the photovoltaic market in the years ahead is strong expansion with above-average growth rates of more than 25 percent. In this swiftly growing market, the Phönix Group is geared to carving out a leading position worldwide. The company will press ahead with internationalisation to develop new markets in the coming years.

2.5 Long-term Group objectives

The Group strives to attain growth rates which will remain substantially higher long term than the average growth of the global photovoltaic market. This necessitates a steadily expanding market share in the markets which we cover and international expansion.

The market share of international markets is to be expanded consistently to up to 50 percent by the year 2010. Up until now, our international business has developed in line with our expectations. Accordingly, the sales share of 4 percent in 2004 rose to 5.5 percent in 2005, and meanwhile to 12 percent in 2006.

Moreover, we wish to make an active contribution at the earliest point in time to raising photovoltaic systems to a level of viability which will make them independent of state subsidies and market incentive programmes. With this aim in mind, we develop processes to identify the cost-cutting potential which will allow us to offer more cost-effective photovoltaic systems.

2.6 Locations

2006, the Company acquired a 49-percent stake in Renewable Energies Development 2002 S.r.l. (RED 2002) in Rome, and at the end of April 2006 the subsidiary Phoenix Energía Solar S.L. in Madrid was founded.

The management of the Group, international logistics and business in Germany is conducted by the parent company Phönix SonnenStrom AG based in Sulzemoos near Munich. The Power Plants segment, consisting of the national salesforce, power plant construction and the control centre (power plant maintenance), is mainly located in the Ulm branch. Together with the Bad Segeberg branch and sales offices throughout Germany, this makes up a dense network of sales partners throughout Germany and Central Europe. The subsidiary Phönix Projekt & Service AG and Phönix SonnenFonds Verwaltungs GmbH are also headquartered in Sulzemoos.

2.7 Changes in the executive bodies of the parent company

Pursuant to the Articles of Association, the board members are appointed by the Supervisory Board and are given bylaws by the Supervisory Board. In the course of the year 2006, there were no changes in the members of the Board of Directors or the Supervisory Board of the parent company. With effect from 1 January 2007, Sabine Kauper was appointed to the Board of Directors by way of resolution of the Supervisory Board dated 29/30 September 2006.

2.8 PHÖNIX SonnenAktie® (the share of Phönix SonnenStrom AG)

In the first half of 2006, Phönix SonnenStrom AG prepared to change stock exchange segments, from the unregulated to the regulated market, with follow-up obligations upon admission (Prime Standard) to the Frankfurt Stock Exchange. On 26 June 2006, all bearer shares of the share capital were admitted.

In December, the share capital was raised by EUR 552,000 through an offer made to institutional investors. Following this measure, the new share capital now comes to EUR 6,077,000.

All shares are admitted under the international securities ID number DE000A0BVU93 and tradable. The shares are in free float. In the reporting year, the Deutsche Bank announced that its subsidiary DWS Investment GmbH, Frankfurt/Main, held 5.01 percent of the voting rights at the time when the shares were first admitted to the official market (Prime Standard). As per 31 December 2006, the members of the Board of Directors jointly held 7.56 percent, and the Supervisory Board members all together held less than one percent of the shares. There were no shares with special rights in circulation.

3. REPORTING PURSUANT TO SECTION 315 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB)

On 31 December 2006, the subscribed capital of the parent company Phönix SonnenStrom AG came to EUR 6,077,000, divided into an equal number of no-par bearer shares. All shares are issued and fully paid up. There is no claim by the shareholders to individual securitisation. The shares are ordinary shares which grant full co-administration and asset rights.

The company is not aware of any shareholders which hold a direct or indirect participation which exceeds ten percent of the capital.

The Board of Directors is authorised, pending the approval by the Supervisory Board, to raise the share capital of the company in the period up to 6 July 2011 through the issuing of new bearer shares against cash and non-cash contribution once or a number of times up to a total of EUR 2,210,500 (approved capital 2006). The Board of Directors is authorised, pending approval by the Supervisory Board, to decide on the exclusion of subscription rights of the shareholders. The Board of Directors is authorised, pending approval by the Supervisory Board, to determine the details of the respective capital increase and the terms and conditions of share issues. The Supervisory Board is authorised to draw up the Articles of Association anew in accordance with the scope of the capital increase.

The share capital of the company will be increased contingently up to EUR 552,500 through the issuing of up to 552,500 new bearer shares (contingent capital 2006). The contingent capital increase will be carried out only to the extent that holders of subscription rights, which on the basis of the authorisation resolution passed by the Annual General Meeting on 7 July 2006, are issued by the company as part of the share option plan 2006 in the period up until 1 July 2011, exercise these rights in respect of the shares of the company and the company grants its own shares in non-fulfilment of these subscription rights. The new shares will participate in profit from the start of the financial year for which, at the time when the subscription rights were exercised, there was still no resolution passed by the Annual General Meeting on the appropriation of the balance sheet profit.

In the event of a capital increase, profit participation of new shares can be regulated in divergence from Section 60 of the German Stock Corporation Act (AktG).

The Board of Directors is authorised by way of resolution of the Annual General Meeting of 7 July 2006, and pending approval by the Supervisory Board, to purchase shares of the company once or a number of times up to a maximum portion of ten percent of the share capital, i.e. up to a total of 552,500 shares, via the stock exchange or by a public purchase offer made to all shareholders. The authorisation is valid until 1 December 2007.

The members of the Board of Directors are appointed by the Supervisory Board. The number of board members and any deputy board members is determined by the Supervisory Board.

In the event of amendments to the Articles of Association, the legal provisions of Sections 133, 179 of the German Stock Corporation Act (AktG) are applicable.

4. REMUNERATION REPORT

4.1 Basic components of the remuneration system of the Board of Directors and the Supervisory Board

In the section below, the basic components of the remuneration system pertaining to the total remuneration of the Board of Directors and the Supervisory Board of Phönix SonnenStrom AG, as laid down under Section 314 para. 1 item 6 of the German Commercial Code (HGB), are explained. The disclosure of the total remuneration and the itemised remuneration of the Board of Directors and the Supervisory Board are contained in the Notes to the Consolidated Financial Statements.

4.2 The Board of Directors

The remuneration of the Board of Directors is discussed and resolved by the Supervisory Board. It is based on the performance and the responsibility of the individual board members and takes account of the financial situation and of criteria for the future success of the company.

The components are determined on the basis of a comparison within the sector; remuneration lies in the lower part of the band thus ascertained. The variable remuneration components are a large part of total remuneration and depend on the extent to which the respective board member achieves the objectives set.

The total remuneration of the Board of Directors in the financial year 2006 is made up of the following components:

a) Fixed components
The contractually agreed monthly basic salary is the fixed portion of remuneration. The amount of the contractually agreed basic remuneration is more or less the same for all board members.

b) Variable components
The variable components are made up of an annual bonus payment and a performance bonus which is paid in the event of EBIT substantially exceeding the target. The variable payments depend on performance and are determined on the basis of established parameters. These parameters are divided up into:

- Quantitative objectives: EBIT at Group level and contribution margin II and III of the sales areas for which the board members are responsible.

- Qualitative objectives: These are generally geared to the functions assigned to the individual board members and are defined in individual agreements on objectives. In the reporting year, for instance, the change to a new stock exchange segment was agreed as a qualitative objective.

- Other components: the Annual General Meeting of 7 July 2006 resolved a share option plan as a further variable remuneration component with a long-term incentive effect. In the reporting year, however, no tranches were allotted.

c) Fringe benefits
The fringe benefits provided by the company include a company car for each member of the Board, D&O insurance cover and accident insurance cover for the members of the Board.

4.3 Supervisory Board

Section 11 of the Articles of Association stipulates that the remuneration of the members of the Supervisory Board shall be approved and determined by the Annual General Meeting. An adjustment to the remuneration system was submitted to the Annual General Meeting on 7 July 2006 for resolution and adopted. Remuneration takes account of the responsibility and the scope of tasks of the members of the Supervisory Board and of the financial position and the success of the company.

The remuneration of the Supervisory Board is made up of the following components:

a) Fixed components
The members of the Supervisory Board receive annual remuneration of EUR 5,400, paid at the end of each year respectively.

b) Variable components
Participation in Supervisory Board meetings or committee meetings is compensated in the amount of EUR 500 respectively.

c) Performance-based components
Performance-based remuneration depends on EBIT, which is calculated as the average EBIT achieved over the last three years based on the financial statements drawn up under German commercial law. The members of the Supervisory Board then receive a bonus of EUR 750 for each EUR 1.0 million of EBIT achieved.

The Chairman of the Supervisory Board receives three times the amount of the fixed and variable remuneration. His deputy receives one and a half times these two components.

Moreover, the members of the Supervisory Board are reimbursed for the expenses and the turnover tax incurred within the scope of their activities. The company has taken out a D&O insurance and accident insurance for the members of the Supervisory Board and provides the Chairman with technical support to enable him to appropriately exercise his duties.

5. BUSINESS PERFORMANCE IN THE FINANCIAL YEAR 2006

5.1 General

The challenges in the financial year 2006 were to realise the growth objectives against the backdrop of an initial shortage of module availability and the German market returning to normal levels as anticipated by management. The expectations placed on the new markets of Spain and Italy have only been partially fulfilled.

5.2 Sales and earnings forecasts

In its press release of 8 December 2005, the parent company's guidance was for a sales target of EUR 140 million for the Group as a whole and an EBIT of EUR 8 million in 2006. Compared with the previous year's figures, this would have corresponded to a sales growth of 26 percent and an EBIT margin (ratio of EBIT to sales) of 5.7 percent as against 6.9 percent in 2005. Upon release of the nine-month figures on 10 August 2006, the Board of Directors confirmed the sales forecast; the EBIT target was retracted owing to the one-off expenses incurred by that time for the conversion of accounting to IFRS and the switch of the company to a new stock exchange segment. In an ad-hoc press release on the interim results on 15 November 2006, the forecast for sales and EBIT were adjusted, also due to the fact that an order placed for a power plant worth over EUR 12.5 million was cancelled by the customer. In addition, demand in the German solar market turned out to be less dynamic than originally expected at the start of the year. The company thus reduced its sales expectations to between EUR 115 and 130 million and the EBIT target to between EUR 4 and 5.5 million, taking account of the aforementioned one-off expenses.

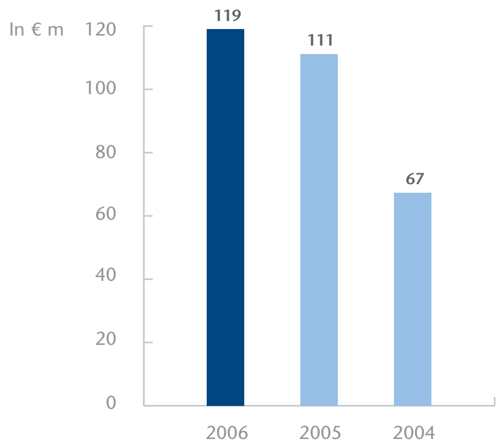
6. EARNINGS, FINANCIAL POSITION AND NET WORTH

6.1 Earnings

6.1.1 Sales revenue

In the financial year 2006, the sales revenue of the Phönix Group climbed 7.1 percent to EUR 118.99 million, up from EUR 111.12 million. The subsidiary Phoenix Energía Solar, founded in the same year, already made a contribution of 3.8 percent to total sales in this year.

Total sales revenue



Total sales of EUR 118.99 million generated by the Phönix Group in 2006 are allocated to the segments as follows: EUR 62.49 million (52.51 percent) to the Components & Systems segment, EUR 56.45 million (47.44 percent) to the Power Plants segment and EUR 0.06 (0.05 percent) to the Other Activities segment.

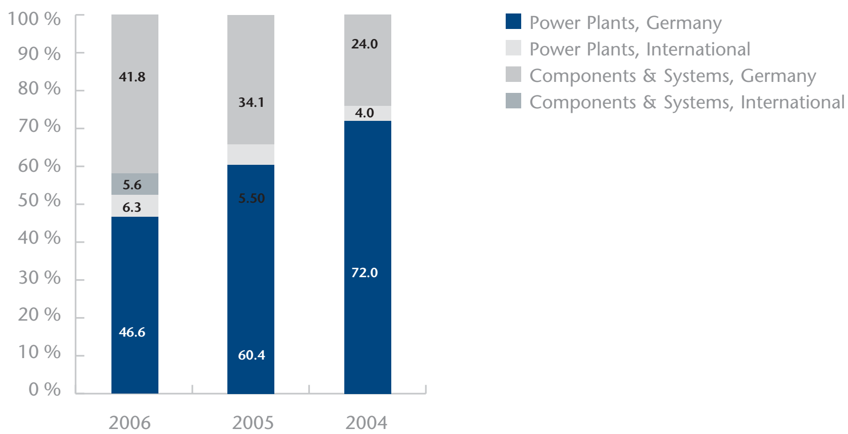
Of the sales achieved by the Components & Systems segment, EUR 55.00 million (46.22 percent of consolidated sales) were attributable to business in Germany and EUR 7.49 million (6.29 percent of consolidated sales) to international business. This represents a decline in sales in the domestic market of this segment of EUR 12.13 million (22.05 percent) and an increase in sales generated abroad of EUR 1.41 million (18.83 percent) as against 2005.

Of the sales achieved by the Power Plants segment, EUR 49.80 million (41.85 percent of consolidated sales) were attributable to business in Germany and EUR 6.65 million (5.59 percent of consolidated sales) to international business. This represents a decline in the sales in the domestic market of this segment of EUR 11.89 million (23.88 percent) and an increase in sales generated abroad of EUR 6.65 million as against 2005.

In 2005, we achieved a market share of 18 percent in ground-mounted PV plants. For the reporting year, figures on the market for ground-mounted PV plants are not yet available. In the Other Activities segment, 100 percent was attributable to domestic business.

Across all segments, there was an increase in international sales to EUR 14.15 million in 2006, up from EUR 6.08 million in 2005. A major factor contributing to this increase was a PV plant planned and built by Phönix SonnenStrom AG in Spain which generated total sales of EUR 6.65 million. In the Components & Systems segment as well, the focus of international sales achieved was in Spain, along with sales in Italy.

Revenue share of business segments



6.1.2 Other operating income

Other operating income declined from EUR 1.25 million to EUR 1.13 million. The main component disclosed under this item being the non-cash release of provisions (EUR 0.28 million).

6.1.3 Cost of materials

The sales-induced increase in the cost of materials came to EUR 103.15 million as compared with EUR 92.12 million in the previous year, which is a rise of 8.44 percent. In comparison to sales growth (7.10 percent), there has been a disproportionate increase in the cost of materials.

Expenses for services outsourced included in the cost of materials totalled EUR 15.73 million in the reporting year, up from EUR 5.86 million in 2005. This is attributable to the above-average increase in sales in the plant construction business.

6.1.4 Personnel expenses

In order to implement the Group's strategy, additional staff were hired in 2006. This is reflected in the personnel expenses, which climbed from EUR 3.7 million in 2005 to EUR 4.8 million in the year under review, as well as in the personnel expense ratio which advanced from 3.3 percent in 2005 to 4.0 percent in 2006. The average number of employees in 2006 came to 90 (including three board members) as compared with the previous year's workforce of 74.

6.1.5 Depreciation & amortisation

Depreciation and amortisation relates to write-downs on intangible assets and property, plant and equipment. The asset utilisation level required by the business model of the company is low. In as much, the property, plant and equipment item comprises mainly office equipment as well as equipment installed by the tenant in the premises of the parent company in Sulzemoos and in Ulm.

Despite the increase in total sales revenue, depreciation and amortisation, which came to EUR 0.24 million in 2006 as compared with EUR 0.25 million in the previous year, remained at virtually the same level.

6.1.6 Other operating expenses

Other operating expenses have risen 27 percent to EUR 7.1 million, up from EUR 5.6 million in 2005. In relation to sales revenues, this is an increase from 5.0 to 6.0 percent.

Almost all cost types have risen which is mainly attributable to one-off expenses for the conversion of accounting to IFRS and for the switch of Phönix SonnenStrom AG to the official market (Prime Standard) of the Frankfurt Stock Exchange. Along with these special effects, pursuing the Group's strategy also contributed to raising the costs.

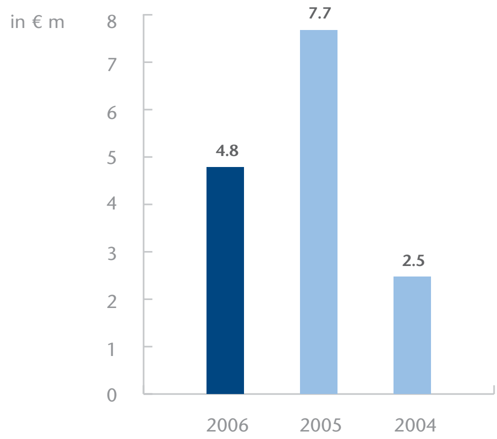
The exchange rate differences disclosed in the income statement come to a balance of EUR – 0.19 million and relate to currency positions held in Japanese yen and US dollars.

6.1.7 Consolidated profit (EBIT)

Earnings before interest and tax (EBIT) fell from EUR 7.7 million to EUR 4.8 million. This decline was attributable to weaker demand and narrowing margins in the German market and, as described above, to the increase in other operating expenses.

EBIT is defined by the Phönix Group as operating profit before interest and tax, plus the result of associated companies. Along with a number of other ratios, the EBIT margin is an important parameter used in managing the Group.

EBIT



As per 31 December 2006, Phönix SonnenFonds GmbH & Co.KG B1, in which Phönix SonnenStrom AG holds a stake of 31.2 percent, and the associated company Renewable Energies Development 2002 S.r.l., Rome, were valued using the at-equity method. The proportionate result of Phönix SonnenFonds GmbH & Co. KG B1 attributable to the Phönix Group comes to EUR 14,656 and that of Renewable Energies Development 2002 S.r.l., Rome, to EUR 1,905.

Tax expenses in the year 2006 were 37 percent of profit before tax, as in the previous year.

Earnings per share of the parent company declined from EUR 0.92 to EUR 0.55.

Summarised consolidated income statement

	2006 in T €	2005 in T €	2004 in T €
Total sales revenue	118,994	111,115	67,334
Other operating income	1,134	1,167	194
Cost of materials	103,146	95,116	58,695
Personnel expenses	4,833	3,702	2,891
Depreciation & amortisation	236	253	264
Other operating expenses	7,143	5,548	3,204
Result of associated companies	17	15	– 1
EBIT	4,786	7,678	2,474
Financial income	6	160	149
EBT	4,792	7,838	2,622
Income tax	1,766	2,888	920
Profit due to minority interest	– 2	–	–
Consolidated net income	3,024	4,950	1,702

6.2 Financial position and net worth

Summarised consolidated balance sheet and balance sheet structure

	31/12/2006		31/12/2005		31/12/2004	
Assets	in T €	%	in T €	%	in T €	%
Fixed assets	3,145	5.5	2,174	5.6	2,609	12.8
Current assets	50,864	94.5	34,157	94.1	17,588	87.2
Total assets	**54,009**	**100**	**36,331**	**100**	**20,197**	**100**

	31/12/2006		31/12/2005		31/12/2004	
Liabilities & shareholders' equity	in T €	%	in T €	%	in T €	%
Equity	33,346	61.7	23,244	64	12,012	59.6
Long-term liabilities and provisions	758	1.5	446	1.3	405	2.1
Current liabilities and provisions	19,905	36.8	12,641	34.7	7,780	38.3
Total liabilities	**54,009**	**100**	**36,331**	**100**	**20,197**	**100**

In particular, tied-up capital in inventories and accounts receivable amounting to EUR 36.74 million resulted in a cash flow from operating activities of EUR – 14.91 million.

Inventories climbed from EUR 3.8 million to EUR 20.7 million.

Similarly, the amount of accounts receivable rose by around EUR 7.5 million to EUR 16.07 million owing to the completion and invoicing of a number of large-scale projects in the Power Plants segment at the end of the financial year.

Due to the aforementioned circumstances, total assets rose from EUR 36.33 million to EUR 54.01 million.

The cash flow from investment activities came to EUR – 1.01 million as compared with EUR – 0.12 in the previous year. This reflects the acquisition of the participation in RED 2002 as well as tenant installations purchased by the parent company in connection with the extension of office space in Sulzemoos and Ulm.

The capital increase executed in December 2006 is positively reflected in the cash flow from financing activities which shows an increase to EUR 7.0 million in the reporting year, up from EUR 5.2 million in 2005.

The equity ratio nonetheless fell slightly to 61.80 percent, down from 64.00 percent.

Owing to high business volume in the Power Plants segment at the end of the year, in particular trade payables for outstanding invoices of sub-contractors rose. All in all there was thus an increase in trade payables, which advanced from EUR 6.93 million to EUR 13.21 million.

Cash funds fell from EUR 20.07 million to EUR 11.17 million, which was mainly attributable to the increase in committed capital as part of current assets.

The liquidity of the Group was ensured at all times.

In order to take account of the growing significance of the finance management of the Phönix Group, a Treasury department was set up in July 2006. The aim of the Treasury department of the Phönix Group is to secure operating success by ensuring liquidity at all times as well as monitoring and controlling financial risk. This is achieved by implementing and practising a group-wide, currency-differentiated, rolling liquidity planning system. In addition, the plan is tested in a series of risk scenarios.

Hedging currency positions has been restricted to open positions from operations. Hedging of exchange rate risks is generally transacted in relation to the underlying; a speculative use of hedging transactions is not permitted.

To finance the growth of the Group, free and unutilised current account lines of EUR 21.19 million can be drawn on. In this context, additional credit lines to enable the company to react flexibly to expanding sales, as planned, especially in the Power Plants segment, are being discussed with principal banks. Until further notice, lines of EUR 10 million and of EUR 12 million, limited until 30 June 2007, have been made available.

All in all, management of Phönix SonnenStrom AG assesses the financial position of the Phönix Group positively.

Summarised consolidated cash flow

	2006 in T €	2005 in T €	2004 in T €
Consolidated net income before tax and minority interest	4,792	7,838	2,622
Cash flow from operating activities	– 14,907	11,636	– 1,254
Cash flow from investment activities	– 1,016	– 120	– 766
Cash flow from financing activities	7,023	5,179	1,655
Net changes in cash	– 8,900	16,695	– 365

7. SEGMENTS

7.1 Components & Systems

The performance of the Components & Systems segment in particular was impacted by the market scenario in Germany, as described under Section 1.4. In the first quarter of 2006, all available modules were placed in the market, despite the very long and snowy winter. Sales of the segment in the first quarter rose by 20.4 percent in a year-on-year comparison.

As early as the first quarter of 2006, the price hikes of module manufacturers proved difficult to pass on to the market. The return on investment in photovoltaic plants with crystalline modules fell, which caused important customer groups, such as the farmers and home owners, to hold back on purchase decisions. This led to overcapacities in crystalline modules. Demand for thin-film modules alone remained at a high level as the more cost-effective price structure of PV plants continued to guarantee a good return. Only from the end of the third quarter did the price level stabilise again. Part of the inventories of crystalline modules had to be sold in the last quarter at market-oriented margins.

Following the founding of the subsidiary Phoenix Energía Solar in Madrid and the participation in Rome-based RED 2002, international business in the Components & Systems segment in Spain and Italy was assigned to these companies. The transfer of sales to the target countries achieved closer customer proximity and better customer support.

7.2 Power Plants

The long and snowy winter of 2005/2006 in southern Germany, in the regions which to date made up almost the total domestic sales of the Power Plants segment, delayed the start of work on large-scale projects until and into the second quarter. The total sales revenue of the segment in the first two quarters was therefore lower in comparison with the previous year's quarters but, over the course of the year, clearly exceeded the figure in 2005. This performance was buoyed by a significant increase in construction activity in the second half of the year and through the supply of thin-film modules by First Solar which was way above plan, as well as the mild winter towards the end of 2006. As in the preceding years, the fourth quarter was the strongest of the year in terms of sales.

A project for power plant construction worth more than EUR 12.5 million, already contractually agreed, was cancelled by the customer as the equity provider of the customer withdrew. This cancellation, among other factors, necessitated that the Group adjust its guidance released on 15 November 2006.

By far the largest thin-film PV plant of the company we have built, with an output of 3.9 MWp, located in Buchheim near Würzburg, went into operation and was transferred to the owners at the end of 2006. The ground-mounted plant was financed by two investors, and we completed construction work in just under three months. Another considerable reduction in the system costs of this PV plant was achieved. All construction projects begun in the year 2006 were completed and conntected to the grid in time.

The expansion of our centralised control centre (power plant maintenance), which provides a 24/7 service for professional operation, and the maintenance of photovoltaic power plants proceeded according to plan. The inauguration took place in July at our Ulm branch. The maintenance offering mainly targets owners and operators of large-scale PV facilities where an immediate response to downtime is relevant. At year-end, the total output of PV plants integrated into this maintenance service came to 19 MWp.

The realising of PV plants in other countries is much more complex than in Germany. In addition, lengthy approval official procedures delay the project work and thus the start of construction. Nonetheless, the first major order for the construction of a thin-film plant in Spain near Toledo, with a total output of 1.4 MWp, was realised.

8. GROUP COMPANIES

8.1 Phönix Projekt & Service AG

Phönix Projekt & Service AG was founded on 7 October 1998 under the company Sol-Aktiengesellschaft with its principal place of business in Ulm; by way of resolution of the Annual General Meeting on 7 May 2002, the company was renamed Phönix Projekt & Service AG. Phönix SonnenStrom AG has owned all the shares in the company since 15 March 2002. Phönix Projekt & Service has been entered into the Register of Companies of the District Court of Munich under HRB 130342.

On 1 November 2006, Ralph Schneider was appointed as board member and authorised sole representative of the company, alongside Dr. Torsten Hass. At the end of 2006, the company had one staff member in its employment.

Phönix Projekt & Service AG holds all the shares of Phönix SonnenFonds Verwaltungs GmbH; the main task of the latter is to manage Phönix SonnenFonds (solar funds). Sole director of Phönix SonnenFonds Verwaltungs GmbH is Florian Ferber.

In the reporting year, Phönix Projekt & Service AG was involved in developing and realising, in cooperation with Phönix SonnenStrom AG, three ground-mounted PV plants with a total output of 5.5 MWp. Apart from project development, the main focus of its activities lies in the acquisition of customers and assistance in contractual negotiations.

Together with the parent company, Phönix Projekt & Service AG provided project development services in Spain. The tasks of project development included in particular obtaining the requisite approvals in cooperation with a Spanish project developer, the clarification of the legal and fiscal structure of the envisaged construction, economic feasibility calculations and the founding and later selling of project companies under the legal form of the Spanish Sociedad Limitada to a potential investor. At the end of the year, approvals for a large-scale project had been almost fully granted.

In view of anticipated growth, the company is fostering and expanding its contacts with institutional investors and cooperation partners.

8.2 Phoenix Energía Solar, Spain

Phoenix Energía Solar S.L. with its principal place of business in Madrid was founded at the end of April 2006. Phönix SonnenStrom AG holds 95 percent of the shares, the other five percent being held by the managing director.

In Francisco Conesa Cervantes, the company has a managing director who has more than 15 years of experience in the sector. Phoenix Energía Solar's task is to step up existing sales activities in the Components & Systems segment as well as in the construction of PV plants in Spain and to develop the Portuguese market. The company had three employees at the end of the year.

8.3 RED 2002, Italy

Phönix SonnenStrom AG acquired a 49-percent stake in the Italian systems integrator RED 2002 S.r.l. on 1 January 2006. The company, which has its headquarters in Rome, concentrates exclusively on grid-connected photovoltaic systems. In 2006, the sales of components and systems in the Italian market were entrusted to RED 2002 by Phönix SonnenStrom AG.

By the end of 2006, RED 2002 had submitted project applications with a total output of 545 kWp which had been approved by the local authority (GRTN). Twelve PV plants totalling 168 kWp were successfully installed in 2006. The completion of the remaining facilities had to be put forward to the first half year of 2007 due to lengthy approval procedures.

9. PROCUREMENT AND PURCHASING

The procurement strategy in the Group is geared towards creating a balanced product portfolio with market-oriented prices. The growth targets are always kept in mind. The aim is to build long-term alliances with suppliers which offer high quality products with an attractive cost-benefit ratio. The selection depends on the marketability and deployability of the respective products in our business segments. A basic portion of the annual module requirement is secured through long-term contracts which nonetheless permit new products, suppliers and technologies.

Over the course of 2006, the parent company built up business relations with our new module suppliers. Boading Tianwei Yingli New Energy Resources and Changzhou Trina Solar Energy in China and Mitsubishi Electric and MSK in Japan are suppliers of crystalline modules. Since the third quarter, the Group receives supplies of PV modules from nine suppliers in total.

First Solar is one of the world's leading manufacturers of thin-film modules and has plans to ramp up production capacities to 400 MWp by 2010. Phönix SonnenStrom AG has a long-term framework agreement with First Solar which runs for six years in which delivery of more than 300 MWp has been agreed, with the option of raising volumes.

Yingli and the parent company signed a purchase contract for 4 MWp due for delivery in 2006 and at the start of 2007. Yingli is a leading supplier of modules in China and plans to expand its production capacity to more than 500 MWp by 2008, which will make it one of the largest module manufacturers in the world.

In 2006, we procured 36 MWp (2005: 28 MWp) worth of modules, of which way more than 40 percent were thin-film modules.

10. RESEARCH AND DEVELOPMENT

The Phönix Group is not a manufacturer of solar modules and inverters for PV systems. We define ourselves as system integrators and builders of PV plants. Our development activities are first and foremost focused on systems technology, especially on assembly systems for roof-mounted facilities and ground-mounted PV plants, as well as on an efficient assembly methodology and project management. Owing to our installation experience, we have a headstart in know-how about special components. We design components such as mounting structures and cabling sets necessary for the construction of a PV plant or for a full system which are then produced by supplier companies on our behalf.

For this reason, we have concentrated our research and development activities on the following areas:

- Selection, evaluation and further development of bought-in products, especially modules and inverters
- Development of in-house products such as mounting structures and cabling systems

Along with improving product features and quality, the main focus is on cutting the costs of the whole system: Lowering the costs across all links in the value chain is the only way in which we will achieve the reduction of system costs indirectly targeted by the German Renewable Energy Act through lowering feed-in tariffs. This means that for all components, not only modules, which are often the main focus of attention, but also mounting structures, cabling, inverters as well as engineering and installation, potential for lowering costs must be identified and implemented (BOS [Balance of System] costs).

In the case of BOS costs for ground-mounted PV plants in particular, the Group has achieved considerable cost reductions despite the general rise in the price of the raw materials copper, aluminium and steel. Without these reductions, adequate margins in Germany in this segment would have scarcely been possible in 2006.

In the first half of 2006, the assembly systems for slanting roofs, "Tecto-Sun" and "Tecto-Sun Plus", that were developed and introduced in 2005, were certified by TÜV Rheinland (German organisation certifying quality). In the second half year, the Landesgewerbeanstalt Bayern (quality control authority for structural analysis based in Augsburg) carried out the prototype test, the first ever on an assembly system. To obtain certification, Phönix SonnenStrom submitted comprehensive information on the static properties of the assembly system which were then tested by the Landesgewerbeanstalt Bayern and subsequently certified. The certification (quality seal number S-A 050555) of "Tecto-Sun" gives the customer the assurance that the assembly systems complies with all relevant DIN standards. Certification was granted until 30 September 2011.

Furthermore, we investigate market maturity in an ongoing process as well as the future prospects of new products or those which have been developed further. Important criteria for us here are the technological maturity, cost-cutting potential and economic viability in a market environment subject to constant change. We can thus identify technological trends and developments at an early state and adjust the strategy of the Group accordingly.

11. EMPLOYEES

At the heart of our personnel work is our vision: "A world in which renewable energy improves the quality of life, is our world. We make extensive use of the inexhaustible power of the sun to generate electricity. This is how we shape the energy supply of today and tomorrow." This vision unites our employees, both in Germany and abroad and presents a consistent image in the market. It serves to promote long-term cooperation and reinforces our success in the face of competition.

Our personnel strategy was developed further in 2006, and a basis for uniform principles, standards and process was established. This process is conducted in accordance with the requirements of our business segments and with the aim of securing and enhancing the performance and competitiveness of our employees through HRD measures.

Successfully supporting entrepreneurial actions necessitates the recruiting, integration and further development of committed and suitable employees. The Phönix Group wishes to continue to win outstanding experts and managers, a goal in which personnel marketing will play an increasingly significant role.

In 2006 as well, the number of personnel rose through the hiring of new experts and managers. The workforce rose from 65 employees at the start of the financial year to 83 by the end, not counting the Board of Directors, temporary staff and freelance staff. Including the latter group, there were a total of 94 people working in Phönix SonnenStrom AG and 101 people throughout the Phönix Group. This is the equivalent of 78 full-time positions at Phönix SonnenStrom AG and just under 88 group-wide.

Education secures the ability to perform long term. With new contracts of apprenticeship and the hiring of trainees on the basis of long-term contracts of employment, we will continue to actively pursue this goal. In doing so, we give young people good career prospects and promote our corporate responsibility.

A targeted alignment of all entrepreneurial activities, combined with a high level of motivation among our employees, is secured by way of a remuneration model introduced throughout the Group in 2004. Remuneration is made up of fixed and variable components.

12. ENVIRONMENT AND CORPORATE RESPONSIBILITY

The Phönix Group markets and sells products which, when used, contribute to protecting the climate. PV plants operate silently and do not emit damaging substances. Over the life cycle of a photovoltaic system around ten times more energy is generated than was needed for its construction. PV systems therefore make an important contribution to the energy mix of the future.

In our construction work on large-scale PV plants, we fulfil the standards set by the NABU (German association for the protection of nature) and of the BSW (German Federal Association of Solar Energy). Our assembly system for ground-mounted PV plants does not require any concrete foundations, which means that surfaces are not sealed and can be reused upon full decomissioning.

Along with the economical use of paper, the paper quality of all print material, our annual report and catalogues for instance, is carefully selected. The paper is chlorine free and is made of 80 percent recycled fibre. The manufacturers bear the seal of the Forest Stewardship Council (FSC) and guarantee that at least 30 percent of the new fibre comes from FSC forests.

Respecting our environment and using resources prudently is one of our basic principles. Similarly, we view our corporate and environmental responsibility as a matter of course. Our employees are treated equally, and we do not permit discrimination. The Group motivates and supports its employees to have their own photovoltaic systems built or to participate in PV plants.

Accessories for Phönix SonnenStrom turn-key plants are custom-made by a Caritas workshop staffed by disabled people in the area. In the same way, we support sports clubs and social organisations in the region.

13. OPPORTUNITY AND RISK REPORT

13.1 Risk management system

Phönix SonnenStrom has based its definition of "risk" on the German accounting standard (DRS) which sees risk as the possibility of negative developments in the financial position of the company. In the opinion of management, risks also harbour inherent opportunities which can be turned to the advantage of the company.

The risk management system of the Group serves to identify, control and manage risks which occur. Above and beyond risks to the company as a going concern, activities, events and developments are recorded by the system if they could exert a significant influence on the success of the company's business in the future.

13.2 Specific risks / material opportunities and risks

13.2.1 External opportunities and risks

At present, the Board of Directors does not consider that there are any major risks at the political level which could have a sustained negative impact on the market development. There is, however, a potential risk in Germany arising from changes in the framework conditions, such as the pending amendment to the German Renewable Energy Act envisaged for 2008. However, new government-subsidised programmes were drawn up world-wide and existing programmes improved in the financial year 2006, for instance in Italy, France, Greece, Canada (Ontario) and the USA (California). This could either fully or partly compensate for any negative market trends in Germany as from 2008.

The rising prices of raw materials can affect the price trend of solar modules and other components of photovoltaic systems. There is a risk that investing in a photovoltaic plant becomes no longer economically viable because prices are too high, the worst case scenario being that the photovoltaic market in Germany stagnates or even declines, even if the German Renewable Energy Act remains unchanged.

In respect of the global shortage of solar silicon, the most important raw material in the production of solar modules, and the ensuing problems of procuring solar modules, the situation eased considerably towards the end of the financial year 2006. Since there are signs that the availability of modules is improving and prices are falling, the Phönix Group anticipates strong sales growth in the current year. In view of the growth prospects, however, competition is becoming fiercer, especially in the Components & Systems segment. As against the previous financial year, this may well lead to increased pressure on margins.

The increasing availability of crystalline modules and of thin-film modules is likely to give rise to more pressure to consolidate in this, but also in other upstream links in the value chain. Therefore, the possibility of suppliers of Phönix SonnenStrom not holding their ground in the face of competition or discontinuing operations cannot be entirely discounted. Through the careful selection and evaluation of the suppliers, as well as spreading the risk, the company attempts to identify default at an early stage and limit the resulting effects.

In wholesale trading with components and systems, the Phönix Group is active in a market environment where barriers to market entry are considered to be relatively low. In view of this, the number of competitors may increase, also through market entry of companies from abroad. Fierce competition, as could come about in the event of better availability of modules, is often accompanied by a decline in the prices which can be commanded. This may exert a considerable impact on the volume growth, sales revenue and the success of the company.

The increasing share of the Group's international activities, both in purchasing and sales, may give rise to risks from exchange rate fluctuations. To secure itself against such risks, the Group hedges transactions based on the underlying.

13.2.2 Internal opportunities and risks

In comparison to the last three financial years, improved module availability has strengthened the negotiations position of Phönix SonnenStrom vis-à-vis module manufacturers. Consequently, the payment terms and conditions have improved and, in particular, unsecured partial prepayments should no longer be necessary.

The company has signed a framework agreement with its current suppliers of thin-film modules on the supply of 300 megawatt peak output at minimum in the period from 2007 to 2012 at prices fixed for the individual years respectively. As per 31 December 2006, there was an obligation to purchase worth EUR 441.82 million. What cannot be entirely excluded is that volumes to be purchased in future cannot be placed in the market due to price declines or can only be placed if considerable discounts are given. If the parent company has to fulfil its obligations up to the minimum purchase volume, without being able to sell components delivered, this would have a substantially negative effect on the earnings, financial position and net worth of the company.

The shortage to date in solar silicon is propitious for the accelerated market entry of thin-film modules. In recent years, the Phönix Group has positioned itself strategically in this segment with the result that it has a competitive advantage over many competitors. The proportion of thin-film modules – also from new manufacturers – is to be expanded in the years ahead in order to secure the competitiveness of the company. New technologies, however, also harbour risks. The possibility of plant operators claiming against the company in respect of issues pertaining to warranties cannot be entirely discounted. The careful selection of products and manufacturers and ongoing quality assurance are intended to minimise this risk.

The current management of the Phönix Group has long-standing experience in photovoltaics. There is extensive experience of the market, and contacts with the most important decision makers in the sector have been established. The experience and knowledge of the members of the board is widely diversified. In as much, there is a strong dependency on individuals. If the whole Board of Directors were to leave the Group, its existence would be threatened. Widening the circle of management and the targeted further development of managers are active measures designed to limit this risk. The development of the company and its sustained growth depend to a great extent on the expertise of its personnel. Competitive pressure can lead to well qualified executives and employees being poached or the company not being able to find enough suitable employees long term.

The construction of large-scale photovoltaic plants in Germany and abroad is one of the core competences of the Phönix Group. The sales volume in plant construction is currently growing at above-average rate, especially abroad where there are plans to build a number of large-scale photovoltaic plants. The Phönix Group is responsible for the complete construction of large-scale plants. These activities also involve passing on component warrantees and guarantees given by the manufacturer, in as much as is legally permissible. Warranty risks from assembly activities are increasingly passed on to the sub-contractors and secured by the relevant guarantees. Nonetheless, there can be a higher risk from guarantee claims, in particular in power plant construction, which cannot be completely excluded. In the meantime, however, the Phönix Group has more than six years experience in this segment, which is proof that the risks can be kept to a very low level through appropriate management and measures.

Further fluctuations in the price of modules are a risk connected with the inventories disclosed as per the reporting date. On the basis of our estimate on how the market will develop in future, this risk was counteracted through the respective adjustments to inventories as per 31 December 2006.

Module supplies in the year 2007 have been planned in return for the prepayment of EUR 2.21 million remitted on the reporting date to a Chinese supplier.

The strong expansion of the Group, both in Germany and abroad, requires a great deal of capital. In the context of a private placement which targeted institutional investors in December 2006, Phönix SonnenStrom AG issued 552,000 new no-par bearer shares. Through this measure the company took receipt of gross issuing proceeds of EUR 7,341,600. Nevertheless, the risk of future liquidity shortfalls owing to cash flow fluctuations caused by dynamic growth needs to be limited. To this end, the company practices stringent liquidity controlling and is in permanent contact with its principal banks so as to ensure that there are sufficient credit and project financing lines available. If capital market measures are carried out or applications for the raising of credit lines are not approved, there is the risk that the growth planned cannot be achieved owing to lack of funds.

A first-time tax audit of Phönix SonnenStrom AG will be carried out in the second quarter of the year 2007. Along with the general entrepreneurial risks, financial risks for the Group may also arise.

In addition, given a market with such dynamic growth as in the photovoltaic market, the Phönix Group is exposed to a range of different risks which are currently not visible or which have currently been estimated low risk.

Over the period from 1999 to 2004, Phönix Projekt & Service AG issued twelve solar funds with a total volume of around EUR 8,540,000 which is under management by Phönix SonnenFonds Verwaltungs GmbH. These activities result in general prospectus liability claims of investors. Risks may be inherent in the future return on photovoltaic plants being lower and the costs higher than forecast. Since the funds were issued, the amount of yield generated by each project has been above forecast. Neither the assertion nor the threat of prospectus liability claims are known.

The Phönix Group considers risk management to be opportunities management as well. Opportunities passed up are also risks which need to be analysed.

At an early state and considerably before the advent of the current shortfall in silicon, the Phönix Group began to investigate thin-film modules, and in the year 2003 successfully introduced a new product on the German solar market in the form of a-Si modules by Mitsubishi Heavy Industries. This product segment has meanwhile been extended to include the thin-film modules of First Solar. The share of thin-film modules in the total had already risen to more than 40 percent by 2006. The company has thus assumed a best-of-breed role in the German and European market which is increasingly being perceived as such.

Through its remarkable preliminary work in the systems technology segment of thin-film modules and its competence in the construction of PV plants using thin-film modules, the company has created a considerable competitive advantage for itself in recent years and thus a huge opportunity for the future.

Acquisitions which take place within short intervals and the expansion of international subsidiaries harbour both opportunities and risks for the Phönix Group. This is could have an impact on the financial position of the company. The risks inherent in these transactions would consist in the failure to integrate different corporate cultures and to harmonise work between the employees from different backgrounds, in an excessive commitment of management capacity, increased financial needs and longer periods needed to initiate business.

13.3 Overall risk / risk of going concern

Taking a comprehensive view of the overall risk situation of the Group, it becomes evident that the risks are restricted and manageable from today's standpoint and that they do not constitute a threat to the Group as a going concern.

14. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

With effect from 1 January 2007, the Board of Directors of Phönix SonnenStrom AG gained a new member designated as Chief Financial Officer (CFO). Sabine Kauper, who has a degree in business administration, was appointed to the position. Her term of office runs for five years. She is responsible for accounting, controlling, treasury, legal issues and contracts, as well as personnel. Sabine Kauper joined Phönix SonnenStrom AG in July 2000 and, as an authorised representative, has built up these areas in the company.

On 31 January 2007, Florian Ferber, managing director of Phönix SonnenFonds Verwaltungs GmbH, laid down his office. His successor, as sole representative managing director, is Monika Mittelhammer who took up her duties on 1 February 2007.

In order to take account of the export potential of the Power Plants segment, Phönix SonnenStrom AG set up an outlet in Spain with its principal place of business in Madrid.

In January 2007, the subsidiary Phoenix Energía Solar was given its first major contract for the construction of a PV plant in Spain with a peak output of one megawatt. The "Jumilla" project in Alicante is being constructed with the thin-film modules of First Solar and implemented by the Power Plants segment of Phönix SonnenStrom AG. The start of construction has been planned for the first quarter of 2007.

In December 2006, Phönix SonnenStrom AG made preparations for the founding of a subsidiary in Singapore in order to tap new market opportunities offered in the Asia-Pacific region. With the entry on 1 February 2007 of Phönix SonnenStrom AG as the shareholder the prerequisites for operations to begin were set in place. The newly found subsidiary Phoenix Solar Pte Ltd will implement PV plant projects throughout the whole region and build up a distribution network for the marketing and sale of components and systems. The product range will comprise both grid-connected turn-key systems and stand-alone solution systems. Phoenix Solar Pte Ltd has huge expansion potential. EPIA estimates that the markets in China, South Korea and India alone could have reached more than 600 MWp a year by 2010.

Phoenix Solar Pte Ltd's management is very experienced. The company is led by Christophe Inglin who formerly held the same position at Shell Solar Pte Ltd, then also headquartered in Singapore. His management team is completed by a commercial director and a technical director.

Phönix SonnenStrom AG meanwhile holds a stake of 75 percent in the new company. The remaining 25 percent are held by company management and other shareholders. Along with the directors, the company is supervised by a Board of Administration which has Dr. Murray Cameron as its Chairman, along with Sabine Kauper and Manfred Bächler as representatives of the parent company.

The Phönix Group is present in four countries on two continents through its subsidiaries and participations. In the course of internationalising the parent company's business, it has decided upon a common name for its subsidiaries. For this reason, the renaming of the Spanish subsidiary Phoenix Energía Solar S.L. as Phoenix Solar S.L. was resolved. The new company name is to be entered into the Register of Companies in the first quarter of 2007.

15. FORECAST

The economic upswing in euro-zone is likely to persist in 2007. The ongoing improvement in the labour market buoys private consumption, and the utilisation of production capacity at a high level boosts the demand for capital expenditure. Nevertheless, economic growth will slow from 2.7 percent in 2006 to an estimated 2.1 percent in the current year. The reasons are dimmer prospects for export, caused by the unfavourable euro exchange rate, a tightening of monetary policy and a more restrictive financial policy, especially in Italy and Germany.

In Germany, the economic upswing which gathered pace in 2006 is likely to hold steady in 2007. A rise in value added tax at the start of the year will probably slow private consumption initially but will have no major impact on the photovoltaic business. The increasingly higher level of employment and brisker investment activity of companies give rise to expectations for a positive year. All in all, gross domestic product is expected to climb by approximately 1.4 percent in 2007.

In 2007, the Phönix Group anticipates that the global market for photovoltaics will grow swiftly, impacted by the topical discussions on climate change and the growing economic viability of photovoltaic systems. Already by the third and fourth quarter of 2006, system prices fell owing to the decline in prices for solar modules. We consider the general conditions in countries where the Group operates to be stable. In addition, we anticipate improvements in the newly created market introduction programmes in countries which formerly did not have such programmes.

In the year 2007, we estimate the sales growth of the Group at EUR 200 million and the EBIT margin at 4.5 percent. We expect margins in the Power Plants segment to remain constant and to fall in the Component & Systems segment.

The order intake of the Phönix Group as per 31 December 2006 stood at EUR 11.27 million.

By building up the supplier portfolio consistently through concentrating on manufacturers of thin-film modules, the solar module volumes necessary for growth have been secured for the most part. From today's standpoint, between 60 and 70 MWp are foreseeable. The share in thin-film modules could rise to over 50 percent.

Underpinning our positive attitude is the accelerated internationalisation of the Phönix Group in 2006 in Italy, Spain and Singapore. Our market share in international markets is to be expanded consistently by up to a minimum of 20 percent in 2007. The process of internationalisation is to be accelerated above all by stepping up the Group's power plant construction activities in southern Europe, above all in Spain, where significant impetus is anticipated for our international business.

The Board of Directors of Phönix Projekt & Service AG anticipates that, in the financial year 2007, large-scale plants with an installed output of 16 MWp can be sold to institutional investors in Germany and abroad. Cooperation between the parent company, especially in the power plant construction business, with its foreign associated companies is to be stepped up.

In the financial year 2008, the management of Phönix SonnenStrom AG expects the Group to grow more swiftly than the global market.

Given the momentum we see in the photovoltaic market, future results may diverge from the expectations which we have today.

Sulzemoos, 16 March 2007
The Board of Directors

Dr. Andreas Hänel
(CEO and Chairman
of the Board of Directors)

Manfred Bächler
(Chief Technology Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Sabine Kauper
(Chief Financial Officer)

RULES AND ANSWERS TO EVERYTHING

"I have lived in Germany for more than 20 years and am still amazed at how many laws, rules and regulations there are here. But, where would we be without a law like the German Renewable Energy Act? Certainly not as far as we are today. Indeed, many other countries have used it as a model. Progress here means creating a legal environment which promotes producers of solar electricity. As the customer support team of Phönix, our job is not to lose sight of pragmatism in the implementation of these laws and to find solutions which suit our customers."

DECLAN O'GORMAN
Complaints Management,
Born in Ireland

Stable foundations

In particular, the positive development in the power plant business in Germany and abroad made a special contribution to the overall result in the financial year 2006.

>> Increase of 7.1 percent in the sales revenue of the Phönix Group to EUR 118.99 million

>> Significant increase in the share of international sales, both in the Components & Systems segment and in the Power Plants segment

>> Earnings per share at EUR 0.55

Consolidated Income Statement

for the financial year from 1 January 2006 until 31 December 2006 pursuant to IFRS

	Note	2006 in €	2005 in €
Total sales revenue	(7,10)	118,994,217.41	111,115,803.11
Changes in product inventory		0.00	– 1,000.00
Other operating income	(11)	1,134,380.58	1,252,167.01
Cost of materials		103,146,480.73	95,115,688.48
Personnel expenses	(12)	4,832,878.04	3,702,412.24
Depreciation & amortisation		236,370.12	252,623.60
Other operating expenses	(13)	7,143,294.88	5,600,102.00
Operating result		**4,769,574.22**	**7,696,143.80**
Result of associated companies		16,560.77	15,089.23
EBIT		**4,786,134.99**	**7,711,233.03**
Financial income		257,307.07	197,942.49
Financial expenses		250,999.84	70,740.66
Financial result		**6,307.23**	**127,201.83**
Consolidated net income before tax		**4,792,442.22**	**7,838,434.86**
Income tax	(14)	1,766,177.43	2,888,465.16
Profit net of minority interest		**3,026,264.79**	**4,949,969.70**
Profit due to minority interest		2,427.17	0.00
Consolidated net income		**3,023,837.62**	**4,949,969.70**
Profit carryforward (2005: loss carryforward)		2,419,221.98	– 2,530,747.72
Consolidated balance sheet profit		**5,443,059.60**	**2,419,221.98**
Average outstanding shares in units		5,546,173	5,372,945
Undiluted and diluted earnings per share	(15)	0.55	0.92

Consolidated Balance Sheet

for the financial year from 1 January 2006 until 31 December 2006 pursuant to IFRS

Assets	Note	31/12/2006 in €	31/12/2005 in €
Fixed assets			
Intangible assets	(16)	396,073.28	362,536.79
Goodwill	(17)	278,123.65	272,383.74
Property, plant & equipment	(18)	810,507.55	511,502.54
Investments in associated companies	(19)	983,252.54	514,032.74
Other participations	(20)	10,400.00	13,666.63
Long-term receivables	(11)	450,000.00	450,000.00
Deferred tax assets		0.00	4,667.34
Other assets	(26)	217,378.65	45,616.48
Total fixed assets		3,145,735.67	2,174,406.26
Current assets			
Inventories	(22)	20,670,862.96	3,834,487.02
Prepayments	(23)	2,362,133.29	0.00
Receivables from long-term construction contracts	(7,24)	26,249.07	0.00
Accounts receivable	(7,25)	16,072,660.10	7,496,062.74
Other financial assets	(26)	562,653.08	2,757,133.57
Cash and cash equivalents	(27)	11,169,088.79	20,069,395.51
Total current assets		50,863,647.29	34,157,078.84
Total assets		**54,009,382.96**	**36,331,485.10**

Liabilities & shareholders' equity	Note	31/12/2006 in €	31/12/2005 in €
Equity	(28)		
Subscribed capital		6,077,000.00	5,525,000.00
Capital reserve		20,254,609.82	13,731,333.02
Retained earnings		1,568,266.79	1,568,266.79
Consolidated balance sheet profit		5,443,059.60	2,419,221.98
Minority interest		2,927.17	0.00
Total equity		33,345,863.38	23,243,821.79
Long-term liabilities and provisions			
Long-term financial liabilities	(29)	109,431.16	166,562.81
Long-term provisions	(30)	494,471.73	252,505.60
Deferred tax liabilities	(14)	154,776.55	26,799.00
Total long-term liabilities and provisions		758,679.44	445,867.41
Current liabilities and provisions			
Current financial liabilities	(29)	57,131.65	54,567.94
Trade payables	(31)	13,212,366.77	6,925,861.04
Other financial liabilities	(32)	636,736.75	647,597.58
Other non-financial liabilities	(32)	3,177,657.26	2,217,576.11
Short-term provisions	(30)	602,872.00	565,587.23
Tax liabilities	(14)	2,218,075.71	2,230,606.00
Total current liabilities and provisions		19,904,840.14	12,641,795.90
Total liabilities & shareholders' equity		**54,009,382.96**	**36,331,485.10**

Consolidated Statement of Changes in Equity

for the financial year from 1 January 2006 until 31 December 2006 pursuant to IFRS

	Subscribed capital in T €	Capital reserve in T €	Retained earnings in T €	Consolidated balance sheet profit / loss in T €	Minority interest in T €	Total in T €
As per 1 January 2005	5,025	7,950	1,568	– 2,531	–	12,012
Capital increase 2005	500	5,810	–	–	–	6,310
Expenses incurred by the capital increase (IAS 32.37)	–	– 29	–	–	–	– 29
Consolidated net income in 2005	–	–	–	4,950	–	4,950
As per 31 December 2005	5,525	13,731	1,568	2,419	_	23,243
First-time consolidation of Phoenix Energía Solar S.L.	–	–	–	–	1	1
Capital increase 2006	552	6,789	–	–	–	7,341
Expenses incurred by the capital increase (IAS 32.37)	–	– 265	–	–	–	– 265
Consolidated net income in 2006	–	–	–	3,024	2	3,026
As per 31 December 2006	**6,077**	**20,255**	**1,568**	**5,443**	**3**	**33,346**

Explanations on the Consolidated Statement of Changes in Equity can be found under Notes 28 and 33.

Consolidated Cash Flow Statement

for the financial year from 1 January 2006 until 31 December 2006 pursuant to IFRS

	2006 in T €	2005 in T €
Consolidated net income before tax and minority interest	4,792	7,838
Depreciation of fixed assets	236	253
Other non-cash income and expenses (incl. result from associated companies)	– 350	– 232
Profit / loss from the disposal of property, plant and equipment	– 7	– 1
Financial income	– 257	– 274
Interest expenses	251	114
Sub-total	**4,665**	**7,698**
Increase / decrease in accruals and provisions (net of discounting effects and non-cash releases)	664	411
Increase / decrease in inventories	– 16,836	3,436
Increase / decrease in prepayments	– 2,362	0
Increase / decrease in long-term receivables from construction contracts	– 26	0
Increase / decrease in accounts receivables	– 8,684	– 2,633
Increase / decrease in other assets	2,182	– 743
Increase / decrease in long-term receivables	0	– 450
Increase / decrease in liabilities	7,236	4,045
Funds generated by operating activities	**– 13,161**	**11,764**
Interest paid	– 251	– 51
Tax on income paid / refunded	– 1,495	– 77
Cash flow from operating activities	**– 14,907**	**11,636**
Withdrawals from associated companies	47	30
Proceeds from disposals of property, plant and equipment	17	5
Investment in intangible assets and property, plant and equipment	– 575	– 155
Investment in financial assets	– 500	0
Start-up costs of Phoenix Energía Solar S.L.	– 5	0
Cash flow from investment activities	**– 1,016**	**– 120**
Cash receipts from the capital increase (minus costs of T € 416 [2005: T € 29] set off against capital reserve)	6,926	6,281
Receipts / payments in connection with financial liabilities	– 56	– 1,292
Interest received	153	190
Cash flow from financing activities	**7,023**	**5,179**
Net changes in cash	**– 8,900**	**16,695**
Cash funds at the beginning of the period	20,069	3,374
Cash funds at the end of the period	11,169	20,069
Changes in cash funds	**– 8,900**	**16,695**

Explanations on the Consolidated Cash Flow Statement can be found under Note 34.

THINKING AHEAD

”When I did my driving license in Germany I was, admittedly, also fascinated by the prospect of having no speed limit and driving full speed ahead. But what I wish for now is ‘full speed ahead for climate protection’. Growth of renewable energies cannot be fast enough for me. Just as Germany is famous for its cars and motorways, nowadays we are recognised as pioneers in solar energy. I am interested to see how other countries develop in this field.”

MARK BAYRAN
Employee in the Accounting Department,
Born in the Philippines

The future in our sights

With the change to Prime Standard, a sub-segment of the official market of the Frankfurt Stock Exchange, the Phönix Group is well positioned to attract the attention of the international capital markets and fulfils the requirements in respect of transparency. In accordance with the German Corporate Governance Code, the Board of Directors and the Supervisory Board published details of their remuneration and of their shareholdings.

>> Hiring of new personnel; increase of 40 percent in permanent positions

>> First-time consolidation of Phoenix Energía Solar

Notes to the Consolidated Financial Statements

of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, drawn up under IFRS for the financial year 2006

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A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

The Phönix SonnenStrom Group (hereinafter called the Phönix Group) is a group which, on 31 December 2006, comprised four companies with a workforce of around 93 employees. In addition, another three persons make up the Board of Directors of the parent company.

The parent company of the Group is Phönix SonnenStrom Aktiengesellschaft (hereinafter called Phönix SonnenStrom AG) with headquarters in Hirschbergstraße 8 in 85254 Sulzemoos, Germany.

The business purpose of the parent company is the development, production, sale and distribution and the operation and management of components and systems for generating energy from renewable energy sources, as well as the assembly and maintenance of these systems. The German subsidiaries operate in photovoltaic fund project management (Phönix Projekt & Service AG) and as a general partner (Phönix SonnenFonds Verwaltungs GmbH). The Spanish subsidiary (Phoenix Energía Solar S.L.) was founded to develop and sell photovoltaic systems in the Spanish and Portuguese markets.

(2) INFORMATION ON ACCOUNTING STANDARDS

Since 27 June 2006, the shares of Phönix SonnenStrom AG have been traded on the regulated market in the Prime Standard segment of the Frankfurt Stock Exchange. Under Article 4 of the EC Directive no. 1606/2002 of the European Parliament and Council of 19 July 2002, this requires consolidated financial statements to be drawn up under international accounting standards.

Phönix SonnenStrom AG therefore prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) promulgated by the International Accounting Standards Board (IASB), London.

All interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) valid for 2006 and the earlier interpretations of the Standing Interpretations Committee (SIC), as well as the additional rules under Section 315a of the German Commercial Code (HGB) have been adhered to in the consolidated financial statements presented in this report. Standards which can be adopted voluntarily at an earlier date have not been taken into account.

The consolidated financial statements consist of a consolidated income statement and balance sheet, the statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements. In accordance with the provision under Section 315a of the German Commercial Code, a Management Report on the Group has been drawn up to supplement the above.

The consolidated financial statements have been prepared in euros. If another measurement unit other than EUR is used, T EUR (thousands of euros) for instance, this will be indicated by the denomination.

The preparation of the consolidated financial statements is based on estimates and assumptions which may influence the amounts of assets, liabilities and financial liabilities disclosed on the reporting date as well as the earnings and expenses of the financial year. Actual amounts may diverge from these estimates.

(3) REPORTING DATE

The reporting date of the companies included in the Group of consolidated companies is respectively the 31 December of a calendar year. The accounting period valid for the financial statements is the period starting 1 January and ending 31 December.

(4) DEADLINE FOR RELEASE

The financial statements are to be released on 25 April 2007. Approval will be given by the Board of Directors.

(5) PRINCIPLES OF CONSOLIDATION

Group of consolidated companies
All subsidiaries were included in the consolidated financial statements of Phönix SonnenStrom AG pursuant to the principles of IAS 27. In comparison with 31 December 2005, the group of consolidated companies of the Phönix Group has been extended to include one more company.

Alongside the parent company, the following companies were consolidated accordingly:

Name	Headquarters	Participation	Duration of participation
Phönix Projekt & Service Aktiengesellschaft	Hirschbergstraße 8 Sulzemoos, Germany	100 %	01/01/ – 31/12/2006
Phönix SonnenFonds Verwaltungs GmbH	Hirschbergstraße 8 Sulzemoos, Germany	100 %	01/01/ – 31/12/2006
Phoenix Energía Solar S.L.	Avenida del Manzanares 204 28026 Madrid, Spain	95 %	26/04/ – 31/12/2006

The first-time consolidation of the companies now included took place on the respective dates when they were acquired as follows: 15 March 2002 (Phönix Projekt & Service Aktiengesellschaft), 12 July 2002 (Phönix SonnenFonds Verwaltungs GmbH) and 26 April 2006 (Phoenix Energía Solar S.L.).

The following companies are included as associated companies in the group of consolidated companies using the at-equity method:

Name	Headquarters	Participation	Duration of participation
Renewable Energies Development 2002 (Red 2002) S.r.l.	Rom, Italy	49 %	01/01/ – 31/12/2006
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos, Germany	31.2 %	01/01/ – 31/12/2006

The acquisition of the holding in RED 2002 took place with effect from 1 January 2006.

For reasons of materiality, a limited partnership in which Phönix Projekt & Service Aktiengesellschaft holds a 100-percent stake was not included in the consolidated financial statements as it is a so-called pool limited partnership which does not operate in its own capacity. This non-consolidated investment is shown in the consolidated balance sheet under ”Other participations”.

A number of limited partnerships of which Phönix SonnenFonds Verwaltungs GmbH (without capital participation) is a general partner were not consolidated, as the general partner does not exercise a controlling influence on the company owing to regulations laid down in the Articles of Association.

Information on the non-consolidated companies:

1. Non-consolidated pool companies

Name	Total assets 31/12/2006 (HGB*) in T €	Total liabilities 31/12/2006 in T €	Income 2006 (HGB*) in T €	Result for the period 2006 (HGB*) in T €
Phönix SonnenFonds GmbH & Co. KG D4	0.6	0.6	0	0

*German Commercial Code (HGB)

The other seven pool companies still in the portfolio as per 31 December 2005 were either sold or liquidated in the financial year 2006.

2. Non-consolidated limited partnerships of which Phönix SonnenFonds Verwaltungs GmbH is general partner:

Name	Total assets 31/12/2006 (HGB*) in T €	Total liabilities 31/12/2006 in T €	Income 2006 (HGB*) in T €	Result for the period 2006 (HGB*) in T €
Phönix SonnenFonds GmbH & Co. KG A1/2 West	838	838	93	25
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	838	838	92	24
Phönix SonnenFonds GmbH & Co. KG A3/4 West	836	836	92	24
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	837	837	90	22
Phönix SonnenFonds GmbH & Co. KG A5/6 West	837	837	90	23
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	836	836	90	23

*German Commercial Code (HGB)

In application of IAS 32.18b, the capital accounts of the shareholders of the limited partnership companies have been included in the total liabilities.

Principles of consolidation

Phönix SonnenStrom AG is obliged to prepare consolidated financial statements as at 31 December 2006. All rules of IAS and IFRS valid on 31 December 2006 were adhered to in the consolidated financial statements presented in this report.

Subsidiaries included in the group of consolidated companies are those in which the Group exerts a controlling influence on the financial and business policies, generally including voting rights of more than 50 percent.

The purchase method was applied to acquired companies (IAS 22 old and IFRS 3). In the case of companies acquired during the financial year, they were included at the time when they were purchased.

In the case of acquisitions made prior to first-time preparation of consolidated financial statements (1 January 2004), specifically Phönix Projekt & Service AG and Phönix SonnenFonds Verwaltungs GmbH, there were no hidden reserves on the assets side or hidden debt on the liabilities side at the time of purchase. Accordingly, differences in amount were ascertained on the basis of the book values. Differences on the assets side between the cost of acquisition and pro rata equity of the companies purchased were disclosed as goodwill. There were no differences on the liabilities side.

Consolidation of liabilities was carried out pursuant to IAS 27. In this process, the accounts receivable and liabilities of the companies included in the consolidated financial statements were set off against each other.

The consolidation of expenses and income was carried out pursuant to IAS 27 whereby intra-group expenses and income were set off against each other.

As per 31 December 2006, there were no interim profits which had to be eliminated.

First-time consolidated companies

With effect from 26 April 2006, Phönix SonnenStrom AG founded Phoenix Energía Solar S.L., a subsidiary with its principal place of business in Madrid, Spain. With 95 percent of the shares, Phönix SonnenStrom AG holds a majority stake in the company. The subsidiary was given start-up capital of EUR 10,000. The managing director of the company holds 5 percent of the shares. Along with equity amounting to EUR 9,500 assumed at the time when the company was founded, EUR 5,739.91 were recorded as incidental costs of purchase which, in the context of capital consolidation, was recorded as goodwill.

In July 2006, Phoenix Energía Solar S.L. founded 61 subsidiaries with their principal place of business in Madrid. The share capital of each company came to EUR 3,100 and was fully paid up. The companies founded in connection with a power plant project in Spain were sold in December, in accordance with the regulations. Owing to the intention to sell, these companies were not included in the consolidated financial statements during the year. There was neither a gain nor a loss from the sale.

Associated companies

Phönix SonnenFonds GmbH & Co. KG B1, in which there is a participation of 31.2 percent, has been set up as a German commercial partnership under the legal form of a limited partnership with a limited liability company as general partner (GmbH & Co. KG). For the purpose of calculating the at-equity result, the amount in the annual financial statement under German commercial law was converted to IFRS. Differences in recognition and measurement as well as IAS 32.18b were taken account of in the auxiliary calculation.

Capitalised value was calculated by discounting the estimated surplus revenues at a rate of 7.4 percent before tax and, as of 31 December 2006, came to EUR 1,491,429.02. The right to settlement of the shareholders came to EUR 1,530,218.82 as of the reporting date. As, under the stipulations of the articles of association, the shareholders have a right to minimum settlement in the amount of the book value of the pro rata equity, this was taken account of in the auxiliary calculation to the at-equity valuation.

In the financial year 2006, the pro rata result from the at-equity valuation attributable to the Phönix Group came to EUR 14,656.09 (2005: EUR 15,089.23). This amount is disclosed separately in the income statement under the ”Result of associated companies” item. The holding in the associated company is shown separately in the consolidated balance sheet under ”Investments in associated companies”. The book value of the investment stood at EUR 481,347.86 as per 31 December 2006.

With effect from 1 January 2006, Phönix SonnenStrom AG acquired a participation of 49 percent in Renewable Energies Development 2002 (RED 2002) S.r.l., an Italian company which has its headquarters in Rome, Italy. The cost of acquisition came to T EUR 500 and the company's inclusion as an associated company in the consolidated financial statements was carried out in accordance with IAS 28 using the at-equity method.

The result from the at-equity valuation attributable to the Phönix Group under IFRS came to EUR 1,904.68 and is disclosed in the consolidated income statement under the “Result from associated companies” item. The holding in the associated company is shown separately in the consolidated balance sheet under “Investments in associated companies”. The book value of the investment stood at EUR 501,904.68 as per 31 December 2006.

(6) ADJUSTMENT OF 2005 FIGURES

Other financial income or expenditure respectively were recognised under the financial result in 2005. In the reporting year, these amounts are disclosed under Other operating income or Other operating expenses respectively. The financial result is the balance of interest income and interest expenses.

Provisions set up for archiving costs and for customer complaints, which were reclassified in 2005 under Other financial liabilities and Trade payables, remain under Other short-term provisions in the reporting year as the outflow of resources with economic benefits in fulfilment of this obligation is merely probable but not certain.

The outstanding invoices for ongoing consultancy costs which, in the previous years, were included under short-term provisions, are disclosed in the reporting year under Trade payables, as the outflow of resources with economic benefits in fulfilment of this obligation are certain.

The previous year's figures in the income statement and in the balance sheet were reposted accordingly in order to achieve a better basis for comparison. There were no effects on the previous year's result owing to these reclassifications.

The previous year's figures of the individual items of the income statement and the balance sheet have therefore changed as follows:

Other operating income	in T €
Income statement disclosure in 2005 prior to reclassification	1,167
plus other financial income	85
Income statement disclosure in 2005 after reclassification	**1,252**

Other operating expenses	in T €
Income statement disclosure in 2005 prior to reclassification	5,548
plus other financial income	52
Income statement disclosure in 2005 after reclassification	**5,600**

Financial result	in T €
Income statement disclosure in 2005 prior to reclassification	160
minus other financial income	– 85
plus other financial expenses	52
Income statement disclosure in 2005 after reclassification	**127**
Detailed disclosure as follows:	
Financial income	198
Financial expenses	71

Other short-term provisions	in T €
As per 31 December 2005 prior to reclassification	385
minus outstanding invoices for consultancy costs	– 28
plus provisions for archiving costs	95
plus provisions for customer complaints	114
As per 31 December 2005 after reclassification	**566**

Trade payables	in T €
As per 31 December 2005 prior to reclassification	7,012
minus provisions for customer complaints	– 114
plus outstanding invoices for consultancy costs	28
As per 31 December 2005 after reclassification	**6,926**

Other financial liabilities, current	in T €
As per 31 December 2005 prior to reclassification	743
minus provisions for archiving costs	– 95
As per 31 December 2005 after reclassification	**648**

An adjustment of the previous year's figures was also carried out in respect of the recognition of individual cost types (sales, administration, operating and other costs) within the Other operating expenses item in order to coincide with the developed allocation criteria now valid group-wide.

The previous year's figures were adjusted as follows:

Item	Amount prior to adjustment in T €	Adjustment in T €	Amount after adjustment in T €
Administration costs	991	775	1,766
Sales costs	2,267	– 377	1,890
Operating costs	2,190	– 361	1,829
Other costs	100	15	115
Total	**5,548**	**52**	**5,600**

B. ACCOUNTING POLICIES AND VALUATION PRINCIPLES

(7) RECOGNITION OF PROFIT AND MANUFACTURING ORDERS

Recognition of profit
Sales revenue recognition (IAS 18) is carried out upon the concluding of purchase orders with the delivery of goods (passage of risk), and upon concluding of service contracts through acceptance by the customer. Revenue from services provided is recognised upon completion of the work. Interest income is accrued according to the outstanding loan amount and the applicable interest rate.

Manufacturing orders
In principle, work in progress is customer orders which have not been fully processed. Under IAS 11, manufacturing orders are to be valued according to the percentage-of-completion method under certain circumstances. Accordingly, contract revenue is recognised as profit in the income statement in the period as and when work is completed. Revenue from fixed-price orders is also recognised as profit according to progress made. Revenue is calculated for each order according to the percentage of the internal and external expenses incurred by the reporting date of the estimated total expense.

In the event that estimating revenue is problematic (e.g. in the case of prepayments of orders anticipated), the contract revenue is capitalised in the amount of the costs in as much as coverage can be expected based on the value of the order.

(8) INDIVIDUAL ITEMS OF THE BALANCE SHEET

Intangible assets
Intangible assets acquired against payment are capitalised at their cost of purchase pursuant to IAS 38 and are written down on a scheduled straight-line basis over their expected useful life. As regards the trademark rights comprised under this position, there was no indication of possible impairment.

Intangible assets created in house are only recognised if they emerge from the development phase. The costs must be clearly allocable to a particular development likely to give rise to an economic benefit in the future. All prerequisites set out under IAS 38.57 must have been fulfilled.

Goodwill
Goodwill is the surplus of the acquisition costs of purchasing a company in relation to the share acquired in identifiable assets and liabilities at their fair attributable value on the day of acquisition. At the end of the financial year, an impairment test was carried out to ascertain the value in use of the goodwill recognised in the balance sheet. No adjustment was necessary. Under the application of IFRS 3, goodwill is not written down on a scheduled straight-line basis.

Property, plant and equipment
Property, plant and equipment are valued at their cost of acquisition minus scheduled straight-line depreciation pursuant to IAS 16. Low-value assets are written down in the year of their acquisition in their full amount and shown in the assets movement schedule as additions and disposals as well as depreciation in the current year.

Leasing
In view of the fact that leasing takes the form of exclusively operating leasing agreements, the leasing instalments and payments are recognised directly as expenses in the income statement according to IAS 17.

There are leasing agreements for company cars as well as for photocopying machines which have been concluded for three to four years.

Other participations
Other participations are valued at the cost of acquisition plus the incidental costs of acquisition.

Inventories
Inventories are capitalised at their cost of purchase, plus the incidental costs of purchase and minus reductions in the purchase price, pursuant to IAS 2.

The cost of acquisition of assets disclosed under merchandise was calculated under the assumption that the assets first bought will be those first used (Fifo method).

Items with reduced marketability are written down to the lower net selling price.

Cost of debt is booked as an expense at the time when it occurs.

Prepayments
Prepayments are not valued as financial assets, similar to inventory for which prepayments were made.

Accounts receivable and other assets
Financial instruments have mainly been assigned to the ”loans and receivables” category.

The purchase of financial assets customary in the market is generally recognised in the balance sheet on the date of settlement, i.e. these financial assets are capitalised on the day when the company takes receipt of them. At this point in time, the liability resulting from the acquisition must be included on the liabilities side.

Accounts receivable and other assets are always valued at their nominal value. Provisions for losses on individual accounts are formed if there are receivables where there is a high default probability. In addition, the credit, interest rate and discounting risk is also taken into account in the valuation.

Long-term receivables have not been discounted as the rate of interest customary in the market is given.

Cash and cash equivalents
Cash and cash equivalents are allocated to the ”available-for-sale financial assets” category and recognised at the attributable fair value which, in relation to cash and cash equivalents in euro, corresponds to the nominal value.

Minority interest
In accordance with IAS 27, minority interest in the consolidated balance sheet are shown as a separate position under equity.

Provisions
Other provisions are recognised pursuant to IAS 37 if, owing to a past event, an actual legal or de facto obligation exists where resources with economic benefit are more than 50 percent likely to be used to fulfil this obligation and a reliable estimate of the amount of the obligation is possible. Other provisions comprise all identifiable obligations. Valuation is carried out based on the probable amount.

For known loss, specific warranty provisions are set up in the amount of the costs which are most likely to be incurred. Owing to the existence of numerous other potential obligations, transfers were made to additional provisions based on experience from the past.

Other provisions were formed for all identifiable risks and uncertain obligations in the amount of their probable occurrence based on the best possible estimate. Long-term provisions are discounted at rate of 5.5 percent p.a.

Liabilities
Liabilities are always carried at their repayment amount.

Liabilities for outstanding costs and for other obligations relating to business are valued on the basis of the anticipated performance still to be fulfilled.

Deferred tax
Deferred tax assets and liabilities are recognised according to IAS 12 for temporary differences between the carrying amount of an asset or liability and its tax base for consolidation transactions with concurrent effects on net income and unused tax loss carryforwards.

Deferred tax assets are only taken account of in as much as the related reductions in tax are likely to occur.

The valuation of deferred tax is carried out as per the reporting date using the then valid tax rate of the parent company of 35.98 percent.

(9) OTHER ACCOUNTING POLICIES AND VALUATION PRINCIPLES

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rates valid when the business was transacted. Monetary assets and liabilities, the value of which is shown in a foreign currency, were converted into euros as per the reporting date. Price gains and losses were recorded in the income statement.

In the process of consolidation, no currency translation was necessary as exclusively domestic subsidiaries and European subsidiaries which prepare their financial statements in euros were included in the group of consolidated companies.

Derivative financial instruments and hedging transactions
In hedging existing or planned deals, Phönix SonnenStrom AG uses mainly derivative financial instruments in the form of forward exchange transactions.

Forward exchange transactions are used exclusively for hedging purposes.

On the reporting date, there were no forward exchange transactions.

In accordance with IAS 39.9, option rights are allocated to the "held-for-trading" category and carried at fair value. In as much as there is no active market, they are valued using recognised valuation models. Changes to fair value are recorded in the income statement, with the concurrent effect on income.

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement was prepared in accordance with the "total cost"-type of accounting.

(10) SALES REVENUE

The sales revenue includes revenue from work in progress from long-term manufacturing orders (under IAS 11) worth T EUR 26.

The sales revenue, including revenue from long-term manufacturing orders, is allocated between the segments as follows:

Sales revenue	2006 in T €	2005 in T €
Components & Systems	62,485	73,206
Power Plants	56,446	37,830
Other	63	80
Total	**118,994**	**111,116**

(11) OTHER OPERATING INCOME

Other operating income	2006 in T €	2005 in T €
Valuation of option right	160	0
Proceeds from damage compensation	197	98
Charging on of costs	72	11
Non-monetary compensation	82	57
Income from the release of provisions and liabilities	281	225
Income from subsidy payments for EU projects	24	6
Electricity income	83	462
Income from the release of provisions	0	129
Income from price gains	144	85
Other	91	179
Total	**1,134**	**1,252**

The income from subsidy payments for EU project relates to monitoring work on photovoltaic systems.

The electricity income relates to compensation for feeding in to the grid.

The income from the valuation of the option right results from changes in the fair value as per 31 December 2006 (see Note 26).

(12) PERSONNEL EXPENSES

Expenses for old-age provisions came to T EUR 3 (2005: T EUR 3) and result exclusively from insurances arranged directly with insurance companies for employees. There are no employer's pension commitments within the Group; neither were share options issued.

Average annual number of employees came to:

Employees	2006	2005
The Board of Directors (parent company)	3	3
Salaried employees (full and part time)	72	51
Temporary staff	15	20
Total	**90**	**74**

(13) OTHER OPERATING EXPENSES

Other operating expenses	2006 in T €	2005 in T €
Administration costs	2,597	1,766
Sales costs	1,981	1,890
Operating costs	2,126	1,829
Other expenses	439	115
Total	**7,143**	**5,600**

Expenses arising from operating leasing agreements came to T EUR 95 in the financial year 2006 (2005: T EUR 56).

The administration costs comprise costs of T EUR 412 incurred by switching to a new stock market segment.

In the financial year 2006, research and development costs of T EUR 26 (2005: T EUR 16) were booked as expenses.

(14) INCOME TAX

The actual and deferred tax income and expenses are as follows:

Tax expenses	2006 in T €	2005 in T €
Actual tax	1,484	2,066
Income tax effect of costs of raising equity capital	150	12
Deferred tax		
– Expenses from the release of deferred tax claims due to the use of loss carryforwards	0	811
– Other deferred tax income	– 2	– 14
– Other deferred tax expenses	134	13
Sub-total	132	822
Total	**1,766**	**2,888**

Derivation from calculated to actual income tax expense:

Tax expenses	2006 in T €	2005 in T €
Earnings before tax	4,792	7,838
Computed tax rate: 35.98 %		
Calculated income tax	1,724	2,820
Changes in calculated compared with actual tax expenses owing to:		
– Income tax not related to the accounting period	13	25
– Tax effect from non-deductible expenses	28	10
– Release of tax provisions	– 15	0
Tax expenses / income due to differences in the tax base	16	33
Total	**1,766**	**2,888**

The income tax calculated is made up of business tax (13.04 percent), the application of the corporate tax rate (25 percent) and the solidarity surcharge (5.5 percent of the corporate income tax), minus 3.44 percent from the business tax eligibility for reduction in relation to the business tax base of 35.98 percent on earnings before tax. This tax rate is also used in the valuation of deferred tax.

Deferred tax on the assets and liabilities side are allocated to the following balance sheet items:

Deferred tax	2006 in T €	2005 in T €
Deferred tax assets		
Short-term financial instruments:	0	5
Total	**0**	**5**
Deferred tax liabilities		
Intangible assets (development costs)	10	0
Prepayments	52	0
Accounts receivable from long-term construction contracts	10	0
Fixed assets (option valuation)	58	0
Tax-related special items in the individual financial statements at company level	0	2
Valuation differences in the individual financial statements at company level	25	25
Total	**155**	**27**

In connection with the capital increase executed in December, the resulting expenses (T EUR 416) minus the fictitious tax-related effect of T EUR 150 were set off directly against equity in the financial year 2006.

The actual income tax still payable as per the reporting date amounted to T EUR 2,218 (2005: T EUR 2,231).

(15) EARNINGS PER SHARE (EPS)

Earnings per share (EPS)		2006	2005
Net income for the year	in T €	3,024	4,950
Average number of outstanding shares	units	5,546,173	5,372,945
Undiluted and diluted earnings per share (EPS)	**€**	**0.55**	**0.92**

Earnings per share is calculated pursuant to IAS 33, taking the consolidated profit after tax and after minority interest and the annual average number of shares outstanding. As per 31 December 2006, there was approved capital of T EUR 2,763 which, however, was not included in the calculations as no dilution effect arose in the current period. Similarly, contingent capital, which came to T EUR 552, was not taken into account as the share options earmarked for this have not yet been issued. The diluted EPS and the undiluted EPS are thus the same.

The 552,000 shares issued in the financial year the context of the capital increase in December 2006 were taken into account on a pro rata basis. The number of shares outstanding has thus risen from 5,525,000 at the start of the period to 6,077,000 units at the end of the period.

The consolidated net income generated for the year 2006 has raised the balance sheet profit. The Board of Directors of Phönix SonnenStrom AG proposes that a dividend of EUR 0.10 on 6,077,000 shares be distributed.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(16) INTANGIBLE ASSETS

For the development of the book values, reference is made to the consolidated fixed asset movement schedule (see next page).

Intangible assets have a useful life of between three and fifteen years. They are written down on a straight-line basis over their useful lives.

In the financial year 2006, Phönix SonnenStrom AG started to develop a new structure on which photovoltaic modules can be mounted. This is a utility patent protected under the law. The valuation and recognition in the balance sheet was carried out at the cost of production which came to T EUR 29; no scheduled depreciation has been applied as the development of this system has not yet been concluded. Upon conclusion, the useful life will be set at five years.

Scheduled depreciation and amortisation was shown in the income statement under the "Depreciation and amortisation" item. No unscheduled write-downs were carried out in the financial year 2006.

Intangible assets	Book value as per 31/12/2006 in T €	Remaining useful life
"Phönix" trademark right	313	10 years
Software licenses	47	3 years
Development costs	29	–

Fixed Asset Movement Schedule

for the financial year from 1 January 2006 to 31 December 2006

Consolidated Financial Statements pursuant to IFRS

	Cost of acquisition/production				
	Status 01/01/2006 in €	Additions financial year in €	Disposals financial year in €	Status 31/12/2006 in €	Status 01/01/2006 in €
Intangible assets	797,714.59	81,991.36	0.00	879,705.95	435,177.80
Goodwill	272,383.74	5,739.91	0.00	278,123.65	0.00
Property, plant and equipment	995,010.49	493,009.97	150,735.56	1,337,284.90	483,507.95
Investments in associated companies	499,854.20	500,000.00	47,340.97	952,513.23	– 14,178.54
Other participation	13,666.63	0.00	3,266.63	10,400.00	0.00
Total fixed assets	**2,578,629.65**	**1,080,741.24**	**201,343.16**	**3,458,027.73**	**904,507.21**

Accumulated depreciation and amortisation					
Result from equity valuation in €	Additions financial year in €	Disposals financial year in €	Status 31/12/2006 in €	Book value 31/12/2006 in €	Book value 31/12/2005 in €
0.00	48,454.87	0.00	483,632.67	396,073.28	362,536.79
0.00	0.00	0.00	0.00	278,123.65	272,383.74
0.00	187,915.25	144,645.85	526,777.35	810,507.55	511,502.54
– 16,560.77	0.00	0.00	– 30,739.31	983,252.54	514,032.74
0.00	0.00	0.00	0.00	10,400.00	13,666.63
– 16,560.77	**236,370.12**	**144,645.85**	**979,670.71**	**2,478,357.02**	**1,674,122.44**

(17) GOODWILL

Goodwill was generated in the process of the first-time consolidation of Phönix Projekt & Service AG purchased on 15 March 2002 (T EUR 272) and of Phoenix Energía Solar S.L. purchased on 26 April 2006 (T EUR 6).

In application of IFRS 3, no scheduled amortisation was carried out on goodwill. The value in use will be reviewed in the course of the annual impairment test. To this end, the book value is compared with the capitalised value. The capitalised value is calculated using the discounted cash flow method whereby the expected cash flows from the companies as per the five-year plan are discounted by the weighted cost of capital of 9.13 percent for domestic companies and 11.75 percent and 12.63 percent for international companies. There is an impairment if the capitalised value is lower than the book value.

In the financial year 2006, no unscheduled amortisation was carried out.

(18) PROPERTY, PLANT AND EQUIPMENT

For the development of book values, reference is made to the consolidated fixed asset movement schedule (see Note 16).

The position includes primarily office furniture and equipment as well as tenant's installations.

Depreciation is carried out on a straight-line basis pro rata temporis over the period of the customary useful life. The useful life is between three and ten years.

No unscheduled write-downs were necessary.

(19) INVESTMENTS IN ASSOCIATED COMPANIES

Phönix SonnenFonds GmbH & Co. and Renewable Energies Development 2002 S.r.l. were valued using the at-equity method. The valuation was carried out on the basis of the individual financial statements at company level converted to IFRS.

Under the individual financial statements derived in accordance with IFRS, Phönix SonnenFonds GmbH & Co. KG B1 disclosed sales of T EUR 180, earnings before tax of T EUR 63, assets of T EUR 1,760, liabilities (including provisions and the settlement claims of shareholders) of T EUR 1,760 and total assets of T EUR 1,760.

In the process of the at-equity valuation in 2006, the participation value was assigned a pro rata profit of T EUR 15 (2005: T EUR 15). The book value of Phönix SonnenFonds GmbH & Co. KG B1 came to T EUR 481.

In connection with financial liabilities entered into (see Note 29), the shares in Phönix SonnenFonds GmbH & Co. KG B1 were pledged as security to the lending bank in the amount of the book value (T EUR 481).

Under the individual financial statements derived in accordance with IFRS, Renewable Energies Development 2002 S.r.l. disclosed sales of T EUR 1,043, earnings before tax of T EUR 34, assets of T EUR 682, liabilities (including provisions) of T EUR 167, equity of T EUR 515 and total assets of T EUR 682 in 2006.

In the process of the at-equity valuation in 2006, the participation value was assigned a pro rata profit of T EUR 2. The book value of Renewable Energies Development 2002 S.r.l. amounted to T EUR 502.

(20) OTHER PARTICIPATIONS

Other participations comprise the cooperative share in a bank as well as a 100-percent stake in a non-operational limited partnership (pool company) which was not included in the consolidated financial statements owing to its lack of materiality.

(21) LONG-TERM RECEIVABLES

This position comprises a purchase-money claim deferred until 31 December 2023. Interest will be charged at 5.5 percent p.a. until 31 December 2015 and, as from 1 January 2016, at 6 percent p.a. until full payment.

(22) INVENTORIES

The table below is a breakdown of inventories:

Inventories	31/12/2006 in T €	31/12/2005 in T €
Merchandise	21,734	3,870
Depreciation	– 1,063	– 36
Balance	**20,671**	**3,834**

Inventories are mainly made up of photovoltaic modules.

In line with the estimate of the Board of Directors pertaining to the anticipated sales revenue being below the purchase prices, inventories of selected modules were written down to the lower net selling value minus selling costs.

The book value of the inventories recognised at the net selling price minus selling costs on 31 December 2006 stood at T EUR 8,460.

The expenses of depreciation are shown in the income statement under the "Cost of materials" item.

In the case of inventories disclosed, there are customary reservations of property rights only for purchase contracts.

(23) PREPAYMENTS

The amount disclosed is an unsecured advance payment made to a Chinese module supplier.

(24) RECEIVABLES FROM LONG-TERM CONSTRUCTION CONTRACTS

On the reporting date, there was a long-term construction contract worth T EUR 26 for a project in Spain. Order revenue of T EUR 26 was recorded. As it was not possible to reliably estimate the revenue from the long-term construction contract on the reporting date, it was recorded only in the amount of the costs incurred to date by the order. It is unlikely that a loss will arise from the order.

(25) ACCOUNTS RECEIVABLE

A breakdown of accounts receivable is shown in the table below:

Accounts receivable	31/12/2006 in T €	31/12/2005 in T €
Receivables / Germany	12,265	7,578
Receivables / International	4,042	59
Sub-total	16,307	7,637
minus valuation adjustments	– 234	– 141
Balance	**16,073**	**7,496**

The attributable fair value of the accounts receivable corresponds to the book values. The valuation adjustments were made for accounts receivable which are likely to be uncollectible.

(26) OTHER ASSETS

Other assets are allocated to the balance sheet items as shown in the table below:

Other assets	31/12/2006 in T €	31/12/2005 in T €
Current financial assets	563	2,757
Fixed assets	217	46
Total	**780**	**2,803**

Other current financial assets are as follows:

Other current financial assets	31/12/2006 in T €	31/12/2005 in T €
Receivables from financial transactions	1	0
Supplier credits	172	394
Suppliers with debit balances	85	692
Prepayments	0	1,375
Other	305	296
Total	**563**	**2,757**

On the reporting date, the fixed assets included an option right to the purchase of another 26 percent of shares worth T EUR 160 in Renewable Energies Development 2002 S.r.l., an associated company valued at equity. The exercising of the option may take place in 2008.

The option right has been allocated to the "held-for-trading purposes" category and, accordingly, has been valued at the attributable fair value, and included in the income statement. At the time of recognition, the fair value corresponded to the transaction price of zero.

The fair value of the option right was calculated on the reporting date, by taking the enterprise value of RED 2002 S.r.l. and the contractually agreed variable purchase price (to be calculated by using the average EBIT in 2006 and 2007) using the corporate planning and the resulting figures and comparing them.

The difference was the amount of the option right. The enterprise value was calculated on the basis of simplified assumptions using the discounted cash flow method where the estimated cash flow is discounted by a capitalisation interest rate (after tax) of 12.63 percent. The interest rate is made up of a base interest rate of 4.25 percent and a risk premium of 8.55 percent, minus corporate tax of 1.3 percent. On the reporting date, the fair value came to T EUR 160.

Changes in fair value at the time when the option right was recognised in the income statement were recorded in the amount of T EUR 160 under Other operating income.

The book value can change substantially if there are indications that the estimated cash flow may be lower or higher than originally anticipated or if the capitalisation interest rate must be adjusted due to changed circumstances. The book value may vary within an estimated range of between T EUR 0 and T EUR 500 in the coming year.

The option right is due to be exercised in 2008.

Based on contractual agreements signed in December 2006 with the shareholders of Phoenix Solar Pte Ltd, Singapore, founded in October 2006, Phönix Sonnen-Strom AG has the right and obligation to participate in the company by way of a participating interest. This right was exercised with effect from 1 February 2007. Through the payment of USD 375,000.00 for 3,750 shares, Phönix Sonnen-Strom AG holds a stake of 75 percent in the company as from this date.

The right and obligation to participate in the company was recognised as cost of acquisition amounting to EUR 0.00 on 31 December 2006.

(27) CASH AND CASH EQUIVALENTS

Cash and cash equivalents	31/12/2006 in T €	31/12/2005 in T €
Cash in hand	1	2
Credit balances	11,168	20,067
Total	**11,169**	**20,069**

Cash in hand and credit balances denominated in a foreign currency were valued as per the exchange rate on the reporting date. Differences in valuation between the cost of acquisition and the attributable fair value were recorded in the income statement under Other operating income and Other operating expenses respectively.

The interest rates in the financial year ranged between 1.75 and 3.7 percent.

(28) EQUITY

As regards the presentation of changes in equity, we refer to the statement of changes in equity.

As per 31 December 2006, the share capital came to T EUR 6,077 (2005: T EUR 5,525), divided up into 6,077,000 (2005: 5,525,000) no-par bearer shares (ordinary shares) and, as per the reporting date of the consolidated financial statements, was fully paid up.

On the basis of authorisation given by the Annual General Meeting of 7 July 2006, a share capital increase of T EUR 552 to T EUR 6,077 was carried out in December 2006. By way of resolution of 12 and 13 December 2006, the Section 5 of the Articles of Association (approved capital) has been amended. The approved capital of 7 July 2006 (approved capital 2006/I) upon partial utilisation came to T EUR 2,211 (2005: T EUR 2,763) as per the reporting date.

The capital reserve is composed of paid-in surplus in connection with the capital increases.

Additional funds of T EUR 6,789 were generated from the aforementioned capital increase. The expenses incurred by the capital increase of T EUR 416 (mainly bank and consultancy fees) were set off against capital reserve, minus the income tax-related reduction of T EUR 150, pursuant to IAS 32.37.

The revenue reserves comprise exclusively adjustment bookings in the context of the first-time drawing up of IFRS consolidated financial statements.

The share capital has been raised conditionally by up to EUR 552,000 through the issuing of up to 552,000 new bearer shares (contingent capital 2006). The contingent capital increase will only be carried out to the extent that holders of subscription rights, issued by the company in the period up to 1 July 2001 in the context of authorisation resolved by the Annual General Meeting of 7 July 2006 under the share option plan 2006, exercise their subscription rights to the shares of the company and the company grants own shares in non-fulfilment of the subscription rights.

(29) FINANCIAL LIABILITIES

The financial liabilities have been disclosed under the following balance sheet items:

Financial liabilities	31/12/2006 in T €	31/12/2005 in T €
Long-term financial liabilities (residual term of more than 1 year)	109	166
Current financial liabilities (residual term of up to 1 year)	57	55
Total	**166**	**221**

This is an annuity loan of a bank which has been divided up according to the maturity structure of the instalments. The interest rate on the loan is 4.6 percent p.a.

(30) PROVISIONS

The following table shows a breakdown of the provisions:

	As per 01/01/2006 in T €	Utilisation in T €	Release in T €	Compounding (+) Discounting (–) in T €	Transfer in T €	As per 31/12/2006 in T €
Long-term provisions	0	0	0	14	0	0
Warranty provisions	253	18	0	– 115	360	494
Total	**253**	**18**	**0**	**– 101**	**360**	**494**
Short-term provisions						
Warranty provisions	328	138	49	0	165	306
Litigation costs	0	0	0	0	100	100
Complaints	114	23	91	0	64	64
Other	124	0	0	0	9	133
Total	**566**	**161**	**140**	**0**	**338**	**603**

The warranty provision has been formed for legal and contractual warranty obligations as well as for reason of fair dealing in relation to customers.

In 2005, the provision for customer complaints and part of the other provisions was disclosed under other financial or other non-financial liabilities respectively. The previous year's figures have been adjusted accordingly.

(31) TRADE PAYABLES

Trade payables have been capitalised at the amount paid back. Due to the short-term periods of payment for these liabilities, the amount corresponds to the attributable value of the liabilities.

(32) OTHER LIABILITIES

Other liabilities disclosed have been divided up into financial and non-financial liabilities.

Non-financial liabilities comprise liabilities which are not based on contracts between the companies or which are not settled in cash or financial assets.

The table below is a breakdown of other liabilities:

Other financial liabilities	31/12/2006 in T €	31/12/2005 in T €
Personnel-related liabilities	618	600
Other assets	19	48
Total	**637**	**648**

The personnel-related liabilities are employee bonuses and profit sharing.

Other non-financial liabilities	31/12/2006 in T €	31/12/2005 in T €
VAT liabilities	2,897	1,983
Liabilities from wage tax and social security	64	110
Personnel-related liabilities	217	125
Total	**3,178**	**2,218**

The personnel-related liabilities are arrears for holiday not taken and overtime.

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

(33) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The revenue reserves disclosed derive exclusively from the first-time conversion of the individual financial statements drawn up under the German Commercial Code to IFRS. Within the scope of the opening consolidated balance sheet as at 1 January 2004, there were valuation differences of T EUR 1,568 with no effect on income which, in particular, related to deferred taxes on existing loss carryforwards.

(34) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been drawn up in compliance with the standards laid down under IAS 7. The cash flow statement comprises the cash flow from operating activities, the cash flow from investment activities, and the cash flow from financing activities. Changes in the group of consolidated companies are disclosed separately.

The calculation of the cash flow from operating activities was carried out according to the indirect method.

The funds include cash and cash equivalents shown in the balance sheet.

F. OTHER NOTES

(35) SEGMENT REPORTING

Business segments
The Group is currently divided up into the two segments of plant construction and commercial transactions. The main activities are allocated as follows:

- **Power Plants**
  Planning, sale and construction of photovoltaic plants

- **Components & Systems**
  Sale and distribution of merchandise

Information on these segments is shown below by segment:

FOR THE FINANCIAL YEAR 2006	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Income statement					
External sales	56,446	62,485	63	0	118,994
Sales revenue between segments	0	0	678	– 678	0
Sales revenue within one segment	0	4,162	0	– 4,162	0
Sales revenue by segment	**56,446**	**66,647**	**741**	**– 4,840**	**118,994**
Result					
Operating result	3,224	1,330	216	0	4,770
Income from associated companies	–	–	–	–	17
EBIT	–	–	–	–	4,787
Financial result	–	–	–	–	6
Consolidated net income before tax	–	–	–	–	4,793
Income tax expenses	–	–	–	–	1,767
Result net of minority interest	–	–	–	–	3,026
Profit due to minority interest	–	–	–	–	– 2
Consolidated net income					**3,024**
Other information					
Investments	273	303	5	0	581
Depreciation & amortisation	111	122	3	0	236
Non-cash expenses	51	56	0	0	107
Non-cash income	209	232	0	0	441

FOR THE FINANCIAL YEAR 2006	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Balance sheet					
Assets					
Segment assets	24,940	27,608	478	0	53,026
Investments in associated companies	0	0	0	0	983
Assets not allocated	0	0	0	0	0
Consolidated assets					54,009
Liabilities					
Segment liabilities	8,689	9,618	138	0	18,445
Liabilities not allocated	0	0	0	0	0
Consolidated liabilities					**18,445**

FOR THE FINANCIAL YEAR 2005	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Income statement					
External sales	37,830	73,206	80	0	111,116
Sales revenue between segments	0	0	381	– 381	0
Sales revenue by segment	**37,830**	**73,206**	**461**	**– 381**	**111,116**
Result					
Operating result	1,497	6,004	195	0	7,696
Income from associated companies	–	–	–	–	15
EBIT	–	–	–	–	7,711
Financial result	–	–	–	–	127
Consolidated net income before tax	–	–	–	–	7,838
Income tax expense	–	–	–	–	2,888
Consolidated net income					**4,950**
Other information					
Investments	53	102	1	0	156
Depreciation & amortisation	86	165	2	0	253
Non-cash expenses	46	89	0	0	135
Non-cash income	120	232	0	0	352

FOR THE FINANCIAL YEAR 2005	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Balance sheet					
Assets					
Segment assets	12,110	23,435	272	0	35,817
Investments in associated companies	0	0	0	0	514
Assets not allocated	0	0	0	0	0
Consolidated assets					36,331
Liabilities					
Segment liabilities	3,674	7,108	75	0	10,857
Liabilities not allocated	0	0	0	0	0
Consolidated liabilities					**10,857**

The segmentation of the operating result is carried out on the basis of the analyses of cost accounting.

The breakdown of other parameters to be segmented has been carried out in respect of the Power Plants and Components & Systems segments by applying a uniform distribution key derived from the sales revenue.

Segment assets are defined as the total of fixed and current assets, minus investments in associated companies. With the exception of actual tax liabilities, segment liabilities are made up of long-term and current liabilities.
This is also applicable to information on the secondary segment.

The release of provisions, liabilities and provisions for losses, as well as the fair value valuation of the option right, were taken account of as non-cash income and transfers to provisions for losses as well as the charging off of receivables as non-cash expenses.

Intra-group deliveries and services are carried out in respect of transfer prices at the same conditions as granted to third parties.

Geographical segments
The operations of the Group are located in Germany and in Europe.

The table below shows a breakdown of Group sales by geographical market:

Sales revenue by geographical market	2006 in T €	2005 in T €
Germany	104,778	105,039
EU excluding Germany	14,153	5,937
Other	63	140
Total	**118,994**	**111,116**

The following table shows the book values of the segment assets and the additions to tangible and intangible assets, divided up by geographical market in which the assets are located:

	Book value of the segment assets		Additions to tangible and intangible assets	
Assets by geographical market	31/12/2006 in T €	31/12/2005 in T €	2006 in T €	2005 in T €
Germany	53,234	36,331	575	156
EU excluding Germany	775	0	7	0
Other	0	0	0	0
Total	**54,009**	**36,331**	**582**	**156**

(36) INFORMATION ON BUSINESS WITH RELATED PARTIES AND COMPANIES

The associated company Renewables Energies Development 2002 S.r.l sourced merchandise worth T EUR 580 from Phönix SonnenStrom AG. On the reporting date, Renewables Energies Development 2002 S.r.l had an unsettled liability vis-à-vis Phönix SonnenStrom AG worth T EUR 1.

In the financial year 2006, Phönix SonnenStrom AG was invoiced by Werttreuhand GmbH, tax and accountancy company, in the amount of T EUR 16 (2005: T EUR 7) for services in connection with tax consultancy services rendered. Mr Ulrich Th. Hirsch as a Supervisory Board member holds a stake in the aforementioned company.

Phönix SonnenStrom AG was invoiced by Münchener Management Forum in the amount of T EUR 2 (2005: T EUR 24) for the moderation of a closed-door session of the Supervisory Board. Prof. Dr. Klaus Höfle as a Supervisory Board member holds a stake in the aforementioned company.

Information on the shareholdings of the executive bodies:

Board of Directors	Units
Dr. Andreas Hänel	206,100
Manfred Bächler	183,530
Dr. Murray Cameron	69,750
Total	**459,380**

Supervisory Board	Units
J. Michael Fischl	0
Ulrich Fröhner	30,600
Ulrich Th. Hirsch	0
Prof. Dr. Klaus Höfle	3,500
Dr. Patrick Schweisthal	5,450
Prof. Dr. Thomas Zinser	0
Total	**39,550**

(37) CONTINGENT LIABILITIES

With the exception of the customary warranty obligations assumed for orders in power plant construction, there are no contingent liabilities.

(38) CONTINGENT RECEIVABLES AND LIABILITIES

There are no contingent receivables.

From the sale of 61 project companies in Spain, there is an obligation on the part of Phönix SonnenStrom AG to buy back these companies for a purchase price of T EUR 189 in the event of the non-materialising of a project.

There were no other contingent liabilities as per 31 December 2006.

(39) OTHER FINANCIAL OBLIGATIONS

The Group has financial obligations totalling T EUR 3,901 (2005: T EUR 1,733) arising from a number of rental and leasing agreements, whereby rental contracts closed for an unlimited period of time were based on a contractual duration of ten years. Of a total value of T EUR 3,809 (2005: T EUR 1,733), an amount of T EUR 485 (2005: T EUR 297) is due within one year, an amount of T EUR 1,485 (2005: T EUR 919) has a residual term of between one and five years, and T EUR 1,931 (2005: T EUR 517) has a residual term of more than five years.

On the reporting date, there was a purchase commitment of T EUR 18,107 (2005: T EUR 14,088) from a number of purchase agreements. The purchase commitment for intangible assets came to T EUR 366.

The company has an obligation up until 2012 to accept the purchase of material (solar modules) worth T EUR 441,820 based on a framework agreement with a manufacturer of thin-film modules.

(40) RISK MANAGEMENT SYSTEM

Currency and interest rate risks
The activities of the Group may incur financial risk mainly from changes in the exchange rates. The Group uses forward exchange transactions to hedge against these risks.

Default risk
The default risk of the Group results primarily from accounts receivable. The amounts shown in the balance sheet are net of provisions set up for anticipated uncollectible accounts estimated by the management of the Group based on past experience and the current economic environment.

The default risk has been limited in the case of cash and cash equivalents as these are held at banks which have been highly accredited by the international rating agencies.

Within the Group, there is no significant clustering of default risk as the risks are spread among a large number of contractual parties and customers.

(41) MATERIAL EVENTS AFTER THE REPORTING DATE

On 1 January 2007, Phönix SonnenStrom AG founded a branch in Madrid, Spain.

On 1 February, Phönix SonnenStrom AG acquired 75 percent of the shares in Phoenix Solar Pte Ltd, Singapore. The remaining 25 percent have been distributed among four other shareholders.

With effect from 1 January 2007, Sabine Kauper was appointed as Chief Financial Officer to the Board of Directors of Phönix SonnenStrom AG. Ms Kauper is an authorised sole representative of the company.

G. SUPPLEMENTARY REPORTING DUTIES UNDER THE GERMAN COMMERCIAL CODE

(42) OVERVIEW OF HOLDINGS

As per the reporting date, the direct and indirect holdings of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, were as follows:

Name of the company	Headquarters	Holding	Equity 31/12/2006 (IFRS / HGB**) in T €	Result 2006 (IFRS / HGB**) in T €
Affiliated companies				
Phönix Projekt & Service AG	Sulzemoos, Germany	100 %	294	129
Phönix SonnenFonds Verwaltungs GmbH	Sulzemoos, Germany	100 %	48	8
Phoenix Energía Solar S. L.	Madrid, Spain	95 %	58	49
Associated companies				
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos, Germany	31.2 %	1,530*	47
Renewable Energies Development 2002 S.r.l.	Rom, Italy	49 %	515	4
Other participations				
Phönix SonnenFonds GmbH & Co. KG D4	Sulzemoos, Germany	100 %	0.50	0

* This is a settlement obligation due to the shareholders at book value, which is not classified under IFRS as equity capital.
** German Commercial Code (HGB)

(43) BOARD OF DIRECTORS OF THE PARENT COMPANY

Dr. Andreas Hänel, PhD Engineering, Sulzemoos (Chairman of the Board)
Manfred Bächler, MSc Engineering, Senden (Technology)
Dr. Murray Cameron, PhD Physics, Garching (Operations)
Sabine Kauper, Business Administration, Merching (Finance – since 1 January 2007)

All members of the Board of Directors are authorised sole representatives.

The remuneration of the Board of Directors in 2006 totalled T EUR 500 (2005: T EUR 542).

The main activities are allocated as follows:

Board of Directors	Fixed components in T €	Performance-based components in T €	Components with long-term incentive effect in T €	Total in T €
Dr. Andreas Hänel	140	27	0	167
Manfred Bächler	130	48	0	178
Dr. Murray Cameron	132	23	0	155
Total	**402**	**98**	**0**	**500**

(44) SUPERVISORY BOARD OF THE PARENT COMPANY

Michael Fischl, Abensberg (Chairman), Head of Internal Audit of Sparkasse Ingolstadt

Ulrich Fröhner, Stuttgart (Deputy Chairman), energy consultant

Ulrich Th. Hirsch, Schondorf, Managing Director of Werttreuhand GmbH, tax and accountancy company, Fürstenfeldbruck

Prof. Dr. Klaus Höfle, Giengen, econonics and business pedagogics specialist, Management Director of Münchener Management Forum (MMF) and associate lecturer at three universities

Dr. Patrick Schweisthal, Rohrbach, lawyer

Prof. Dr. Thomas Zinser, Hohenschäftlarn, tax consultant and Head of the Tax Faculty at the Landshut University of Applied Sciences

Ulrich Th. Hirsch is also a member of the Economic Council of the District of Fürstenfeldbruck.

Dr. Patrick Schweisthal is also the Chairman of the Supervisory Board of Phönix Projekt & Service AG, Sulzemoos.

Prof. Dr. Thomas Zinser is also the Chairman of the Supervisory Board of mercari AG, Munich.

In the financial year 2006, the total remuneration of the Supervisory Board members came to T EUR 83 (2005: T EUR) and was divided up as follows:

Supervisory Board	Fixed components in T €	Performance-based components in T €	Components with long-term incentive effect in T €	Total in T €
J. Michael Fischl	20.70	4.50	0.00	25.20
Ulrich Fröhner	12.10	2.25	0.00	14.35
Ulrich Th. Hirsch	9.40	1.50	0.00	10.90
Prof. Dr. Klaus Höfle	9.90	1.50	0.00	11.40
Dr. Patrick Schweisthal	9.40	1.50	0.00	10.90
Prof. Dr. Thomas Zinser	8.90	1.50	0.00	10.40
Total	**70.40**	**12.75**	**0.00**	**83.15**

(45) FEES OF THE INDEPENDENT AUDITOR

The fees paid to the auditing company and subsequently booked as expenses in 2006 were as follows:

Fees of the Independent Auditor	2006 in T €
Audit of the financial statements	83
Other certifying and valuation services	132
Tax consultancy services	0
Other services	18
Total	**233**

The fees for other certifying and valuation services mainly comprises services provided in connection with the change of stock market segment and the capital increase of Phönix SonnenStrom AG. In this connection, additional fees of T EUR 53 were set off directly against capital reserve pursuant to IAS 32.37.

(46) DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

With the change to Prime Standard on 26 June 2006, Phönix SonnenStrom AG is obliged to submit its Declaration of Conformity with the German Corporate Governance Code within a period of one year.

The declaration had not yet been submitted and published upon completion of the preparation of the consolidated financial statements.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 16 March 2007
Phönix SonnenStrom Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel
(CEO and Chairman of the Board of Directors)

Manfred Bächler
(Chief Technology Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Sabine Kauper
(Chief Financial Officer)

Auditor's Report

We have audited the consolidated financial statements prepared by the Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the Notes to the consolidated financial statements, together with the Group Management Report for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the Group Management Report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB (German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and the consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements of the Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 20 March 2007
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. A. Haas	M. Rauchfuss
German Public Auditor	German Public Auditor

Abbreviations

AG	Aktiengesellschaft – stock corporation
AktG	Aktiengesetz – German Stock Corporation Act
a-Si	Amorphous silicon (thin film technology)
BSW	Bundesverband Solarwirtschaft – German solar industry federation
EBIT	Earnings before interest and tax
EEG	German Renewable Energy Act
EPIA	European Photovoltaic Industry Association
EU	European Union
Fifo	First in first out
GCGC	German Corporate Governance Code
GDP	Gross domestic product
GmbH	German equivalent of a limited liability company
GW	Gigawatt
GWp	Gigawatt peak power output
HGB	German Commercial Code (GCC)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
JPY	Japanese yen
KG	German equivalent of a limited partnership
kW	Kilowatt
kWh	Kilowatt per hour
kWp	Kilowatt peak power output
MW	Megawatt
MWp	Megawatt peak power output
p.a.	Per annum
PPVX	Photon Photovoltaik Aktien Index
PV	Photovoltaic
SIC	Standing Interpretations Committee
VAT	Value added tax

GERMANY QUITE RELAXED

”One thing that often surprised me in Germany as a country believed to be more formal was the relaxed dress code. And certainly, a more relaxed outfit is what suits the pleasant atmosphere at Phönix. One notices the friendly atmosphere as soon as one walks through the door: Where else does one have such an amiable ‘gatekeeper’ at reception like our Joschi who is happy to see you back so early in the morning. It makes you want to come in, doesn't it? Particularly when one is so much on the road buying modules from international companies.”

STUART BRANNIGAN
Head of Procurement and Purchasing
Born in Great Britain

Financial calendar 2007

15/05/2007	Figures as per 31/03/2007
26/04/2007	Annual Report 2006 available as a .pdf file on the homepage
25/05/2007	Regular Annual General Meeting in Fürstenfeldbruck
16/08/2007	Figures as per 30/06/2007
15/11/2007	Figures as per 30/09/2007

Information without guarantee; subject to amendment

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www.SonnenStromAG.de

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