2007 Annual Report

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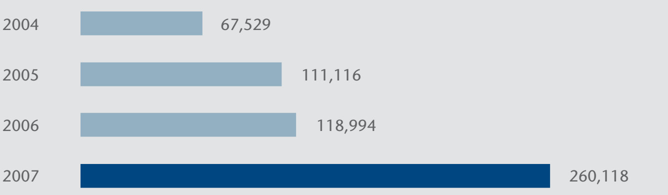
Phoenix Solar AG in figures

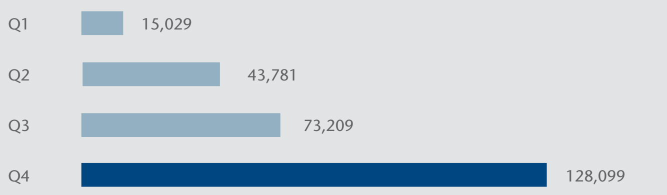
Reporting date / period		2004	2005	2006	2007
Balance sheet (1)					
Total assets	in k€	20,197	36,331	54,009	**77,102**
Equity	in k€	12,013	23,244	33,346	**47,326**
Equity ratio	%	59.5	64.0	61.7	**61.4**
Return on equity	%	14.2	21.3	9.1	**30.6**
Results					
Total sales revenue	in k€	67,529	111,116	118,994	**260,118**
EBIT	in k€	2,474	7,711	4,786	**22,259**
EBIT margin	%	3.66	6.94	4.02	**8.56**
Result for the period	in k€	1,702	4,950	3,024	**14,481**
Employees (1)					
Employees (2)	number	58	71	101	**148**
Sales per capita (3)	in k€	1,555	1,778	1,352	**1,915**
Phoenix SonnenAktie®					
No-par bearer shares	units	5,025,000	5,525,000	6,077,000	**6,077,000**
Earnings per share (4)	in €	0.34	0.92	0.55	**2.38**
Closing price at year-end	in €	7.15	15.88	16.00	**41.00**
Market capitalisation	in k€	35,929	87,737	97,232	**249,157**

(1) at the end of the period
(2) average employee number, including part-time and temporary staff
(3) full-time equivalent
(4) basic and diluted earnings

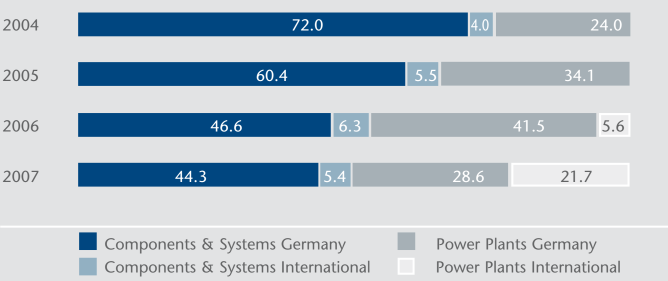
TOTAL SALES REVENUE in k€



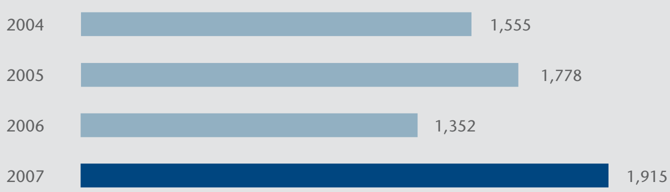
QUARTERLY SALES DEVELOPMENT 2007 in k€



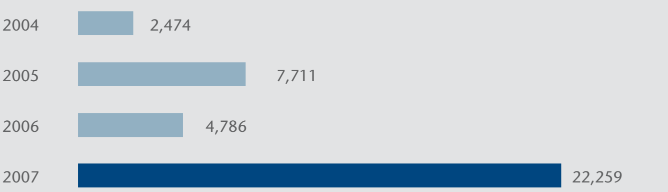
REVENUE SHARE BY BUSINESS SEGMENT 100 %



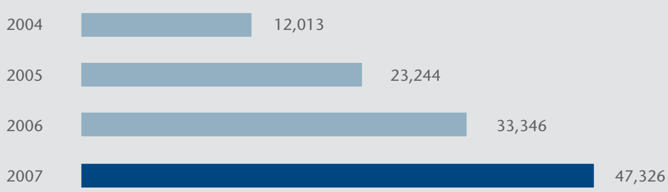
REVENUE PER CAPITA in k€



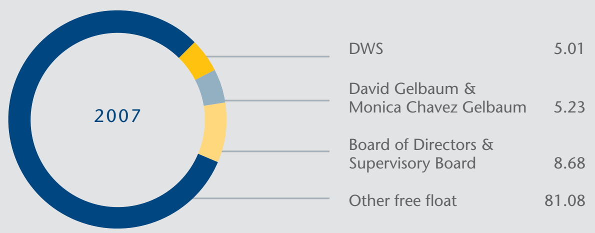
EBIT in k€



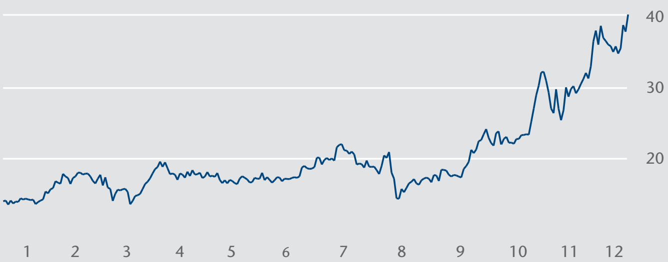
EQUITY in k€



SHAREHOLDER STRUCTURE %



SHARE PRICE PERFORMANCE in €



Low: 04/01/2007 € 15.75 High: 28/12/2007 € 41.00

Phoenix Solar AG – Annual Report 2007

Releasing synergies,
working in partnership,
creating value for all:

Making energy together

Phoenix Solar 2007 – Highlights of a successful year

Q1

JANUARY

Construction on major projects in Germany began earlier, favoured by the weather

FEBRUARY

Start of operations of Phoenix Solar Pte Ltd, Singapore

Latin American delegation visits Phoenix Solar in Sulzemoos

MARCH

Major 6.5 megawatt order placed with Phoenix Solar in La Solana, Spain

Q2

APRIL

Dr. Andreas Hänel travels to Central America as part of the delegation of the German Foreign Minister Dr. Frank-Walter Steinmeier

Phoenix Solar as partner at the 7th Asia Pacific Roundtable for Sustainable Consumption and Production organised by the UN

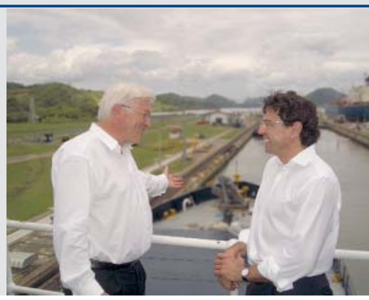
MAY

Renaming of the company as Phoenix Solar AG

First-time payment of a dividend of EUR 0.10 per "SonnenAktie®"

JUNE

Start of construction of the 6.5 megawatt power plant in La Solana, Spain



Q3

JULY

First order placed by a British investor for a 3 megawatt Phoenix Solar power plant in Longuich near Trier

Start of cooperation with Bürgerservice GmbH, Trier

AUGUST

Acquisition of projects in Spain with a total volume of EUR 20 million

The Board of Director's raises its guidance for international sales to EUR 60 million

Market entry of Phoenix Solar into Greece with a project development contract of more than 25 megawatt

SEPTEMBER

Framework agreement between KG Allgemeine Leasing and Phoenix Solar on project development and implementation in a total amount of EUR 275 million

Extension of the framework agreement with module manufacturer First Solar to 396 megawatt up until the year 2012

Q4

OCTOBER

First contract for a Phoenix Solar power plant in Greece with a peak power output of one megawatt

Inauguration of a Phoenix Solar demonstration photovoltaic system on the roof of the German School in Mountain View, Silicon Valley, USA

Visit of Gerda Hasselfeld, Vice President of the German Bundestag, to Phoenix Solar in Sulzemoos

The Board of Directors raises its guidance to more than EUR 200 million in sales and over EUR 11 million in EBIT

NOVEMBER

Contracts for three Phoenix Solar projects which are to be built in Germany in the first quarter of 2008

DECEMBER

Renaming of Phönix Projekt & Service AG as Phoenix Solar Energy Investments AG

Phoenix SonnenAktie® closes the year at its highest level of EUR 41

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

Dear Shareholders,

What could be more gratifying for a Board of Directors than to be able to report a record year. So, even if at Phoenix Solar AG responsibility for the environment and the future determines our actions just as much as economic and business considerations, let us express our pleasure at what we have achieved first in terms of figures: In 2007, the Phoenix Group recorded the best result in its history, with revenues totalling EUR 260 million and an EBIT of EUR 22.3 million. On the stock exchange we have meanwhile attained a status which puts us in the league of the 30 most important German technology equities outside the DAX. This is why the Phoenix SonnenAktie®, the share of Phoenix Solar AG, has also been listed on the TecDAX technology index since 25 March 2008.

What made our performance so successful in 2007 was not only the healthy economy in the solar sector, especially in the second half of the year, but also the hard work and commitment of our employees at Phoenix Solar, impressively reflected in an increase of more than 100 percent in the revenues of both segments. The Board of Directors wishes to express its thanks to them, as it is they who have made it possible for us to deliver these record results. We would also like to thank you, our Phoenix Solar Shareholders, for your trust and your decision in favour of a company which pursues a strategy of sustained growth built on solid foundations. A number of developments in the market in recent years have shown that a corporate policy geared to the long-term as opposed to swift, but potentially short-lived growth, is better suited to serving our aim of achieving our common vision and acting in the interests of investors.

Beyond pure financials, however, other new performance benchmarks have been set. For instance, in 2007 we won our largest single order ever, with a total volume of more than EUR 37 million, for the construction of a major-league photovoltaic power plant near La Solana in Spain. But, for Phoenix Solar, this 6.5 MW power plant is not only future oriented in terms of its size but also because we will be taking over its operation which will be monitored in future from our state-of-the-art Control Centre in Ulm, on a 24/7 basis, year in year out. We have thus succeeded in expanding our position in an area which is becoming increasingly important: the maintenance and service of photovoltaic power plants which have already been installed.

As great as the success of La Solana is, it is not the only proof of how well our international strategy is working. In 2007, total revenues generated by international business rose an impressive 397 percent as against the previous year and are now contributing EUR 70.4 million, which is

27 percent, to the success of the Phoenix Group. This was attributable to very positive developments in Spain, the second most important photovoltaic market outside Germany where we have already established ourselves as a strong presence through our subsidiary Phoenix Solar S.L., and also to our Italian participation RED 2002 S.r.l. Based on these results, along with promising developments in Greece and the first order placed by a US investor, we are confident that the Phoenix Solar brand is set to anchor itself more firmly in the international photovoltaics market in the near future. After all, we have proven on numerous occasions that Phoenix Solar AG is ready for even larger projects.

We also view the development of photovoltaics in general positively. Our reasons for this are twofold: firstly, securing supplies is gaining importance as the third major topic of energy policy, along with economic viability and climate protection, against the backdrop of dwindling oil, coal and gas as primary sources of energy. And secondly, there is a trend emerging in the USA, the world's most intensive user of energy, away from fossil fuels towards renewable energies. This makes the prospects for our continued growth good. Especially in photovoltaics, which taps an inexhaustible source of energy for use just about anywhere and which is becoming increasingly attractive in many countries, we see great opportunities in a future renewable energies mix: Given the rising price of fossil energy sources, electricity generated by the sun is becoming an increasingly indispensable part of our energy supply.

As if in confirmation of this assessment, orders in hand at the start of this year were exceptionally good. On 1 January 2008, orders placed came to EUR 109 million, thereby almost tenfold the previous year's figure of EUR 11.3 million. The Board of Directors has reason to be optimistic that its guidance for an increase in revenues to substantially more than EUR 300 million is attainable. But, even more than all the positive signs, the quality and strength of Phoenix Solar is the source of our confidence: that we make energy together.

With sunny greetings,

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

The Board of Directors of the Phoenix Solar AG

Dr. Andreas Hänel, Chief Executive Officer of Phoenix Solar AG, has worked in the photovoltaics sector since 1987. He is a founding member of the company and has played a critical role in building it up from its origins as the so-called Phönix Solar Initiative des Bundes der Energieverbraucher e.V. (German association of energy consumers) into a company listed on the stock exchange.

Dr. Hänel studied mechanical engineering, aviation and space technology as well as environmental protection technology at the Technical University of Munich. He earned his doctorate with a thesis on the development of a standardised environmental impact analysis method for industrial products.

Since June 2005, Dr. Hänel has been a member of the Senate of the German Federal Association for Economic Development and Foreign Trade (BWA) and, since 2006, Vice President of the Bavarian Regional Association of the BWA. He is also a member of the Board of Directors of RED 2002 S.r.l. and Vice Chairman of the Supervisory Board of Phoenix Solar Energy Investments AG.

He is responsible for the following areas: Corporate strategy and control, Corporate communications, Marketing, Infrastructure, and Sales in Europe.

Manfred Bächler was appointed to the Board of Directors of the company as Chief Technology Officer in 2000. He has worked in the photovoltaics sector since 1990.

Manfred Bächler studied electrical engineering at the Technical University of Munich. After a number of years as a consultant in a company with an international client base and core activities in the research and development of photovoltaic systems technology, he founded MHH Solartechnik GmbH in 1995, a company headquartered in Ulm and specialised in the building of photovoltaic plants. At the same time, he worked as an expert for the Directorate General TREN of the EU Commission as part of the "THERMIE Technical Management Programme" until 2000.

Manfred Bächler is a member of the Supervisory Board of Phoenix Solar Energy Investments AG and of the Board of Directors of Phoenix Solar Pte Ltd.

He is responsible for the following areas: Power Plant Construction, Technology and Innovation, Quality assurance, IT-Service and Sales Asia.

Sabine Kauper joined Phoenix Solar AG in July 2000 and, in her role as an authorised representative of the company, has built up the areas described below. At the start of the year 2007, she was appointed Chief Financial Officer by the Supervisory Board.

Sabine Kauper studied business administration, with tax and auditing as her areas of specialisation. Having completed her degree, she joined an auditing company where she worked for a number of years. As a member of the Board of Directors of Phoenix Solar AG, Sabine Kauper is also a member of the Board of Phoenix Solar S.L., a member of the Board of Directors of Phoenix Solar Pte Ltd and belongs to the Supervisory Board of RED 2002 S.r.l.

She is responsible for the following areas: Group Accounting, Controlling, Treasury, Law and Contracts, Personnel and Organisational Development, and Internal Audit.

Dr. Murray Cameron has been in charge of the operations of Phoenix Solar AG since 2003. He has worked in the photovoltaics sector since 1994.

Dr. Cameron studied astrophysics at University College in London and wrote his doctorate thesis in 1988 on the subject "Evolution of low-mass star forming regions and their associated outflow phenomena". In the years from 1988 to 1994 he was project manager at the Max-Planck Society for extraterrestrial physics in Garching near Munich. During this period he was awarded a research Fellowship of the Royal Society London and a Fellowship of the Max-Planck Society.

After three years in the role of Secretary General of the European Photovoltaic Industry Association (EPIA), Dr. Murray Cameron took up the position of its Vice President from 2003 until 2005 and, from 2005 to 2006, exercised the office of President; he has been the Vice President of EPIA since May 2006. Dr. Cameron is also a member of the Board of Directors of Phoenix Solar Pte Ltd, and of the Supervisory Board of Triodos Renewable Energy for Development Fund.

He is responsible for the following areas: Procurement and Purchasing, Logistics, and Business Development.

Managing big tasks is best done together

Taking the lie of the land, analysing the commercial potential and selecting suitable components are only three of the tasks which Phoenix Solar undertakes in the construction of a large-scale photovoltaic power plant. In addition, before the start of the project development phase, we are concerned to establish close cooperation in our partnerships and the approval of all involved, from investors, suppliers and service providers through to the neighbours of a new Phoenix Solar power plant. In the following pages, we would like to give you more of an insight into this complex process, which combines technical know-how and business acumen with deep-rooted responsibility for both the environment and society, flanked by a cooperative stance. After all, this is a process reflected in our daily work and a fundamental conviction of ours: that big tasks are best managed together.

POWER PLANT CONSTRUCTION

Much too good for a shopping mall!

Even if it looks easy at first glance, developing a new Phoenix Solar power plant project is a time-consuming process. It is the part which happens before the actual planning and covers all preparatory activities which are carried out – by our subsidiary, Phoenix Solar Energy Investments in particular – to prepare the ground for the new Phoenix Solar power plant. In project development, for instance, we search for a suitable location, assess the lie of the land, develop it and make the first calculations. And we show our customers and partners that there are more rewarding ideas for a green field site than another shopping mall.


DEVELOPMENT

Planning and more planning

And now we have it, the new Phoenix Solar power plant project: The idea is on the table and ready to become reality. After an agreement has been signed, press releases are used to report on progress and success. What it means first and foremost, however, is that the employees in power plant construction must measure and carry out tests, factor in snowfall and the number of sunny days, calculate module volumes, the length of cables needed and the work involved, negotiate with partner firms, fix schedules and monitor the budget through ongoing controlling – in short: to pull out all the stoppers and use a good idea to swiftly produce a Phoenix Solar power plant, optimised as to location and yield.


PLANNING

Phoenix Solar, by your leave

The assessment of technical feasibility and economic return are not the only components of planning a new Phoenix Solar power plant. Along with the meticulous calculation, our tasks also include obtaining approval from the authorities and compliance with directives on nature conservation. And it goes without saying that, before building a new Phoenix Solar power plant, we make sure that people in the neighbourhood accept it as, without their agreement, making energy together would simply not be possible.


Rathaus
APPROVAL

Clever logistics is a question of logic

In a market such as photovoltaics which is strongly impacted by the availability of the basic materials, clever logistics is a key factor for success. At Phoenix Solar, the volume of modules is anticipated and purchased upfront – an intelligent way of managing availability and optimum distribution among the various power plant projects. As with the conception of Phoenix Solar power plants, one part dovetails perfectly with another, thereby contributing to efficient completion. Based on the reconciliation of the phase of construction and the materials needed, delivery is often made by the manufacturer itself directly to the building site.

PURCHASING AND LOGISTICS

We don’t have much time for construction noise

No, there is not much noise when a Phoenix Solar power plant is being built. Although the site has to be prepared to take the module assembly jigs which are rammed into the ground, and some excavation work also has to be done for the cables, this is the only work which needs heavy duty equipment. Following on from this is careful manual work: the assembly of the modules, linking up the cables with the modules, and connecting up the inverters. But thanks to our experience and efficient workflow, this is also finished quickly. And not only is interference in the local ecosystem kept to a minimum through minimum sealing of the ground needed for Phoenix Solar ground-mounted systems, but also the swift and low-invasive construction site work means that we have erected our new source of environmentally compatible energy on a green field in no time.


CONSTRUCTION

Please come and take a look!

We're ready now! The new Phoenix Solar power plant which now stands can start operating. This is also a cause for celebration, with all involved, and an official event for handing over the plant to its operators. Mostly guests from the press and politicians take part when we connect another plant up to the grid. Ultimately, another milestone has been set in raising the amount of clean electricity generated and creating a future where safe energy is secured.


phoenix
SOLAR
Einladung
INAUGURATION

Ulm is everywhere!

Even when a new Phoenix Solar power plant is opened and connected up to the grid our work is not over. Because we readily assume responsibility for our customers and monitor the operation of their solar power plant from our state-of-the-art control centre in Ulm: 24 hours a day, 7 days a week, across Europe. All data of the plants connected are gathered here and monitored by specialists who ensure that operations run smoothly. Any interruptions are registered immediately and possible sources of malfunction checked. And if it should become necessary, our maintenance technicians are informed – 24 hours a day, 7 days a week …

OPERATION & MONITORING

Everything is well in hand

Thanks to our careful planning, selection of materials and construction, all Phoenix Solar power plants function reliably and are low maintenance. Day in day out they supply countless households with clean energy and generate optimum returns for their operators. We carry out regular maintenance work on our photovoltaic large-scale plants to safeguard maximum performance and prevent any disruption upfront. And anyway it is always a wonderful sight to see energy flow and flow and flow …


MAINTENANCE

A presence to be reckoned with in Spain

A sunny climate and favourable legislation have helped Spain to advance to one of Europe's most attractive locations for photovoltaic plants within the space of a few years. Phoenix Solar has been active in this promising market since 2006 through its own subsidiary – with great success. The company's most notable achievement in 2007 was to win an order for a 6.5 MW power plant near La Solana in the Castilla-La Mancha Province, about 200 kilometres south of Madrid. With a total volume of EUR 37.5 million, this is the largest project in the history of Phoenix Solar AG.

The client placing the order for this megawatt project was once again KG Allgemeine Leasing GmbH & Co. (KGAL), a company located in Grünwald near Munich for which Phoenix Solar has already built four turn-key solar parks. KGAL launched a closed-end fund for this power plant as well, which enables German investors to profit from the buoyant conditions in the Spanish solar market.

We cooperated with a Spanish partner in the development of the La Solana project. In its role as general contractor, Phoenix Solar is also responsible for the conception, technical planning and construction of the power plant. Moreover, Phoenix Solar will take over full operational maintenance of the plant in La Solana. Our state-of-the-art Control Centre in Ulm will warrant consistent monitoring, thereby ensuring that the plant functions smoothly at all times.

As from June 2007, more than 40,000 solar modules were installed on a surface area of around 21 hectares. With an expected yield in the sunny region of Castilla-La Mancha of more than 1,500 kWh per kilowatt output, we estimate the energy efficiency at 9.8 million kWh a year. But these figures alone are unable to reflect what La Solana really means to us: The year 2007 saw our greatest contribution yet to ensuring a sustainable supply of energy and protecting the climate.

LA SOLANA

Phoenix SonnenAktie® (share of Phoenix Solar AG)

STOCK MARKET ENVIRONMENT

The stock market year of 2007 stood under the auspices of the financial crisis triggered by the US subprime mortgage crisis. Although it was primarily the banking sector which was hit, the crisis weakened the capital market overall, causing the shares of the solar sector to take partly substantial losses.

Germany's leading index, the DAX, rose by a total 20.6 percent in 2007 having seen a series of sharp declines. In March, for instance, it bottomed out at 6,448 points. After a subsequent phase of recovery, with steady gains leading up to an annual high of 8,106 points on 16 July 2007, the DAX again sustained considerable losses in July. In November, DAX shares tumbled for the third time but, by the end of the year, had for the most part made up for lost ground.

The development of the TecDAX, which also comprises a number of German solar stocks, was similar. All in all, the TecDAX recorded a positive year with gains of 28.3 percent. In March, August and November technology share prices fell sharply on occasion. Despite the recovery towards year-end, the peak of 1,044 points for the year was not repeated and the TecDAX closed at 974 points.

Share prices developed well in the renewable energies sector. The Renewable Energy Industrial Index (RENIXX® World), the sectoral indicator, recorded a plus of 107.3 percent.* The NAI (German nature stock index) climbed 26.9 percent in the course of the year.

* Source: Internationales Wirtschaftsforum Regenerative Energien (IWR)

SHARE PRICE PERFORMANCE

In comparison to the DAX and TecDAX, the Phoenix SonnenAktie® (share of Phoenix Solar AG) developed far better. The share started the year at EUR 16.20 and, at year-end, reached its highest level of EUR 41.00, which is a growth of 153 percent. Market capitalisation on the reporting date came to EUR 249.2 million.

As from mid-March, the share price began to gain momentum and, after rising 32 percent, closed the first quarter at EUR 21.48. This pace, however, was not matched in the second quarter. The share price fell from EUR 20.78 on the first trading day of the second quarter to its lowest level of EUR 18.48. On the last trading day of the second quarter it closed marginally down on its initial value (–1 percent).

The second half-year on the stock market got off to a positive start, both in terms of the solar sector and the overall market. The price of the Phoenix SonnenAktie® picked up momentum through to July. However, in mid-July the share prices of the solar sector declined owing to the US subprime crisis. Share prices rallied at the start of August until the subprime crisis hit the headlines again, and the whole market came under pressure at mid-month. The solar sector also recorded sharp losses during this period. Having reached its low of EUR 16.54 on 17 August, the price of the Phoenix SonnenAktie® recovered and had climbed 36.6 percent by the end of the quarter to a quarterly closing price of EUR 22.60. In October, the share price of Phoenix Solar AG accelerated swiftly and gained just under 16 percent in this month alone. In the three months of the fourth quarter, the Phoenix SonnenAktie® rose 77.6 percent and closed the trading year at an annual high of EUR 41,00.

ANNUAL GENERAL MEETING

The regular Annual General Meeting of the company took place on 25 May 2007 in the Event Forum, Fürstenfeldbruck. Presence during the processes of resolution came to 22.74 percent of the share capital. All items on the agenda were adopted by a large majority of between 99.88 and 100 percent. At this meeting, the shareholders unanimously approved the renaming of the company as Phoenix Solar AG and the distribution of dividend.

DIVIDEND

Phoenix Solar AG pursues a shareholder oriented dividend policy which accords with company growth and the respective business situation. On 29 May 2007, the company paid dividend for the first time of EUR 0.10 for the financial year 2006. This resulted in a gross dividend payment of EUR 607,700 and a payout ratio of 20 percent in relation to net income for the year.

The Board of Directors and the Supervisory Board will put forward a proposal to the Annual General Meeting to double the dividend for the financial year 2007 to EUR 0.20.

SHAREHOLDER STRUCTURE

In the financial year 2007, there were 6,077,000 no-par bearer shares outstanding. In the course of the financial year, four reports pursuant to Section 21 et. seq. German Securities Trading Act were submitted to Phoenix Solar AG. The reports by the shareholders inform the company about exceeding or falling below the statutory reporting level. As per the reporting date on 31 December, DWS Investment GmbH, Germany, held more than five percent of the shares. Similarly, David Gelbaum and Monica Chavez-Gelbaum, USA, held more than five percent. At Supervisory Board and Board of Directors level there were also a few share sales transactions for the first time in more than six years. The shareholder structure was as follows on the reporting date:

SHAREHOLDER STRUCTURE	%
DWS	5.01
David Gelbaum & Monica Chavez Gelbaum	5.23
Board of Directors & Supervisory Board	8.68
Other free float	81.08
Total	**100.00**

DEUTSCHE BÖRSE
PRIME STANDARD

INVESTOR RELATIONS

Active and open communication with the shareholders and analysts about the business situation, the strategy and the future prospects of the Group has always been of central importance to Phoenix Solar AG. In tandem with the expansion of our business into international markets, we have therefore stepped up our international investor relations work. Phoenix Solar AG fulfilled the obligations arising from admission to the Prime Standard segment of the Frankfurt Stock Exchange.

An important part of our communication is presenting our company at investor conferences. As in the previous years, the Board of Directors presented the Group at the spring conferences of HSBC Trinkaus & Burkhardt and of Commerzbank in Frankfurt am Main. First contact was made with investors in the USA at the “Second Annual Opportunities in Solar & Cleantech” symposium of the investment bank Piper Jaffray. Shareholders and analysts showed great interest at the Intersolar Trade Fair in Freiburg. For the first time Phoenix Solar AG welcomed analysts and investors from Italy as well at the 22nd European Photovoltaic Solar Energy Conference and Exhibition in Milan at the start of September. In August the company participated in 6th M:access analysts’ conference in Munich and in the German Equity Forum in Frankfurt am Main, and Dr. Hänel gave a talk on the subject of “Managing Change – Challenges in the Future” to the DEAM Forum of Deutsche Bank in Frankfurt am Main. At the Equity Forum of Deutsche Schutzvereinigung für Wertpapierbesitz (German Protective Association for Security Holdings) held in December in Munich, private investors had the opportunity of getting to know the company and asking the members of the Board of Directors questions.

The company was met with lively interest from investors attending road shows in Frankfurt, London, Boston, Zurich, Paris, Madrid, Lisbon, Copenhagen and Stockholm. In addition, there were many visitors to company headquarters in Sulzemoos near Munich.

KEY FINANCIAL DATA

		in €
02/01/2007	Daily closing price	16.20
	Market capitalisation	98,447,400
28/12/2007	Daily closing price	41.00
	Market capitalisation	249,157,000
01/01/ – 31/12/2007	High / low	41.00 / 15.75
	Earnings per share	2.38
	Dividend proposal per share	0.20

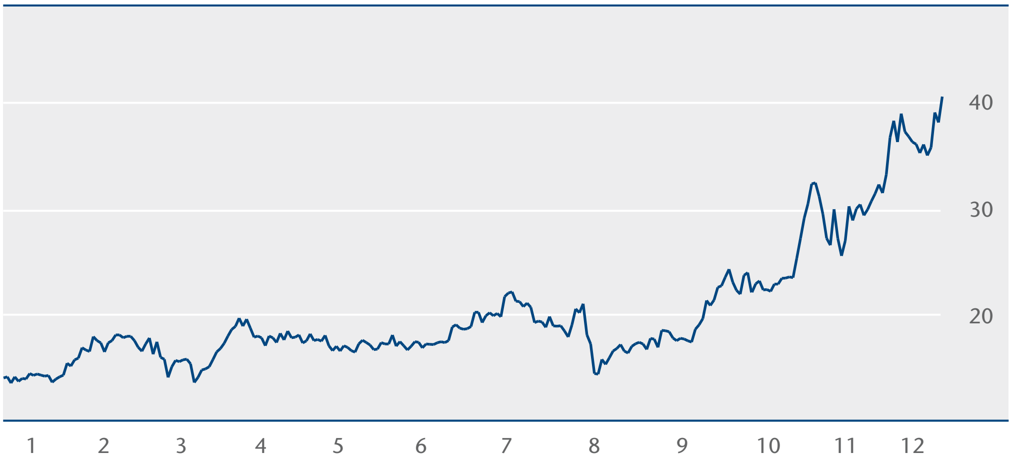
KEY DATA

Securities code number	A0BVU9
International securities code number	DE000A0BVU93
Ticker symbol	PS4
Share class	No-par bearer share
Number of shares as per 31/12	6,077,000 units
Share capital on 31/12	€ 6,077,000
Stock market segment	Official Market
Transparency standard	Prime Standard
Indices	TecDAX [1], CDAX, Prime All Share, Technology All Share, Prime Industrial Performance, Prime IG Renewable Energies Performance, ÖkoDAX
Stock markets	Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin / Bremen, Düsseldorf, XETRA
Sector / industry sector	Industrial goods / Renewable energies
Designated sponsor	HSBC Trinkaus & Burkhardt AG

(1) since 25 March 2008

SHARE PRICE PERFORMANCE in the period from 1 January to 31 December 2007

in €



Low Price	04/01/2007	€ 15.75
High Price	28/12/2007	€ 41.00

Report of the Supervisory Board

J. Michael Fischl, Chairman 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 2007, 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 (AktG).

GENERAL INFORMATION

In the financial year, the Supervisory Board met at seven regular and one extraordinary meeting, thereby discharging its duties under the law, the Articles of Association and the bylaws of the Company. When necessary, the Supervisory Board passed resolutions by way of written circular.

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.

The Audit Committee held three meetings, one of which in the presence of the independent auditor, to establish key audit areas and discuss interim reports. In addition, it addressed issues concerning accounting and risk management. The Audit Committee is made up of the Supervisory Board members Prof. Dr. Thomas Zinser, Ulrich Th. Hirsch and Dr. Patrick Schweisthal.

The Personnel Committee has J. Michael Fischl, Ulrich Fröhner and Prof. Dr. Klaus Höfle as its members. It met twice during the reporting period and dealt mainly with issues relating to ascertaining the goals achieved by the members of the Board of Directors.

The chairmen of the boards reported on their work in the respective committees in a plenum.

In accordance with the resolution passed by the Annual General Meeting, the Chairman of the Supervisory Board mandated Munich-based AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft on 23 July 2007, pursuant to Section 111 para. 2, sentence 3 of the German Stock Corporation Act (AktG), to audit the financial statements and the Management Report at company level and the financial statements and the Management Report at Group level drawn up in accordance with the standards laid down under IFRS /IAS. On 28 March 2007, 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.

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

The Supervisory Board regularly advised and monitored the activities of the Board of Directors. The monitoring of the management of the company is primarily carried out by the receipt of regular written reports and through oral reports by the Board of Directors and ensuing discussion thereof. The Board of Directors reported on a timely basis about the course of business, strategic development and the current situation of the Group. In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular contact with the Board of Directors. The Supervisory Board was therefore involved in decisions of significant importance for the Group.

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

- development of the overall corporate strategy and reconciliation of the impact on corporate planning, as well as the organisation structure and organisation of workflows,
- expansion of the subsidiary Phoenix Solar Energy Investments Aktiengesellschaft,
- receipt and discussion of the reports prepared by the Board of Directors in accordance with Section 90 of the German Stock Corporation Act (AktG) 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 (AktG) and the information gained therefrom,
- monitoring of the stock market value of the company,
- acknowledgement of the development of instruments designed to optimise purchasing,
- human resource development within the company,
- 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.

After thorough review and detailed discussion, the Supervisory Board has approved the resolutions put forward by the Board of Directors.

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

Together with the members of the Audit Committee and the other members of the Supervisory Board, the Chairman of the Supervisory Board took cognisance of:

- the annual financial statements and the proposal for the appropriation of profit by the Board of Directors for the financial year 2007,
- the report by the Board of Directors on the situation of the company in 2007,
- the consolidated financial statements for the financial year 2007 pursuant to the standards laid down under IFRS /IAS,
- the report by the Board of Directors on the situation of the Group in 2007.

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 AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft. The audit did not give rise to any objections; unqualified audit opinions were issued.

In discussions between the Audit Committee with the Chief Financial Officer and the independent auditor, and through interviews and discussions with the independent auditor in the accounts review meeting on 2 April 2008 in which the Board of Directors took part and explained the financial statements it had prepared and the risk management system, the Supervisory Board intensively reviewed the financial statements and the management reports submitted. It 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;
- 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 assets, financial position and results of operations of the company.

The independent auditor reported on the material results of his audit in the meeting on 2 April 2008.

The Supervisory Board has ratified the financial statements prepared by the Board of Directors, which are hereby adopted. The Supervisory Board ratified the financial statements and management report of the Group as at 31 December 2007. The Supervisory Board approves the proposal of the Board of Directors to use the unappropriated retained earnings to pay dividend of EUR 0.20 per share, which comes to EUR 1,336,900.00, on the share capital eligible for dividend of EUR 6,684,500.00, to the shareholders and to carry forward the remaining unappropriated retained earnings to new account.

In its meeting on 2 March 2008, following the formal consultation with the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act, the Supervisory Board resolved the following statement on the report of the independent auditor:

> *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 and unqualified audit opinion. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the annual financial statements as at 31 December 2007 were ratified by the Supervisory Board in its meeting on 2 March 2008, 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 9,034,052.15 through dividend payout of EUR 0.20 per share and to carry forward the unappropriated retained earnings of EUR 7,697,152.15 to new account.*
>
> *Furthermore, the Supervisory Board adopts the consolidated financial statements as at 31 December 2007 and the Management Report on the Group for the financial year 2007.*

Sulzemoos, 2 April 2008

Dipl.-Kfm. J. Michael Fischl
(Chairman of the Supervisory Board)

Corporate Governance Report

The sustained enhancing of enterprise value is the primary objective of the actions of the Board of Directors and the Supervisory Board of Phoenix Solar AG. A good and responsible management of the company fosters the trust of shareholders and of other stakeholders. The structures laid down under the German Corporate Governance Code (hereinafter also called "Code") are geared towards safeguarding the efficiency of the management of the company and define a set of control mechanisms for its monitoring. With a few exceptions which are substantiated below, Phoenix Solar AG has espoused the recommendations of the Code. The company embraces the transparency requirements of the capital market and of the public in an open and active dialogue. This Corporate Governance Report, drawn up in accordance with Code Item 3.10, is a statement on the significant components of the Corporate Governance Code as implemented within the company.

UPDATING OF THE GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code was last updated on 14 June 2007. In its current version, it recommends setting up a Nomination Committee in addition to an Audit Committee. The Supervisory Board of Phoenix Solar AG has not yet formed this committee but all Board members are in the process of discussing the related issues. In a new recommendation, the Code proposes a threshold be set for the commitments made to executive board members should their activities be terminated. Existing contracts with the members of the Board of Directors of Phoenix Solar AG do not generally provide for any severance payment commitments. From a topical standpoint, the updated Code integrates compliance, i.e. the control of adherance to statutory regulations, more strongly into the sphere of responsibilities of the Board of Directors and the Supervisory Board. This has been taken account of by the Board of Directors and the Supervisory Board in the exercising of their duties. The listing of Directors' Dealings in the past financial year is therefore no longer part of the Corporate Governance Report.

The securities dealings of the Board of Directors and the Supervisory Board in the shares of Phoenix Solar AG are listed in an updated version at the company website www.phoenixsolar.com under the "Investor Relations", "Phoenix Share", "Directors' Dealings" heading.

MANAGEMENT AND SUPERVISION: THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The Board of Directors and the Supervisory Board constitute the dual management structure of Phoenix Solar AG and cooperate closely for the good of the company.

The four members of the Board of Directors manage the company in their own responsibility. The Board of Directors develops the corporate strategy and decides on measures for its implementation at the operational level. The aim is to raise enterprise value on a sustainable basis. Clear responsibilities for individual areas define the competences of each member of the Board of Directors. The Board of Directors meets regularly once a week and, in addition to this, remains in close contact.

The Supervisory Board, which is made up of six members, monitors and advises the Board of Directors in the management of the company. No employee representatives belong to the Supervisory Board as the maximum number of employees of Phoenix Solar AG is below the statutory level for employee co-determination in supervisory boards. The Supervisory Board agrees the strategy with the Board of Directors and keeps itself informed of the status of implementation. In particular, the Chairman of the Supervisory Board is in constant dialogue with the Chairman of the Board of Directors outside of regular meetings.

Members of the Supervisory Board maintain no personal or business relationship with the company which could constitute conflicts of interests and thereby endanger the independency of the Supervisory Board. In the past financial year, no conflicts of interest arose.

COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board of Phoenix Solar AG has formed two committees, an Audit Committee and a Personnel Committee, to enhance the efficiency of its work.

The Audit Committee is made up of the following members: Prof. Dr. Thomas Zinser (Chairman of the Committee), Ulrich Th. Hirsch and Dr. Patrick Schweisthal. The tasks of the Committee include defining the key audit areas for the annual financial statements with the external auditors and the discussion of interim reports. To this end, the Committee met three times in the financial year 2007, on 13 March, 23 June and 1 August.

The Personnel Committee, similarly made up of three persons, is responsible for agreeing goals in the context of the performance-based remuneration of the members of the Board of Directors, as well as ascertaining the goals achieved. The drawing up of contracts for the members of the Board of Directors is also the responsibility of the Personnel Committee. Furthermore, the Committee works on measures for improving communication between the executive bodies of the company on an ongoing basis. In the financial year 2007, the Committee consulted upon changes to the scope of responsibility of Dr. Murray Cameron in particular and a realigning of the tasks conferred. The Committee members are Messrs. J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle. In the financial year 2007, the Personnel Committee met twice, on 7 February and on 4 August.

SHAREHOLDINGS

The table below shows the number of shares of the company held directly or indirectly by the Board of Directors

BOARD OF DIRECTORS	UNITS	HOLDING
Dr. Andreas Hänel	242,200	3.99 %
Manfred Bächler	183,530	3.02 %
Dr. Murray Cameron	69,750	1.15 %
Sabine Kauper	0	0

As per 31 December 2007

At Supervisory Board level, Ulrich Fröhner (24,600 shares, 0.4 percent), Dr. Patrick Schweisthal (5,450 shares, 0.09 percent) and Prof. Dr. Klaus Höfle (2,175 shares, 0.04 percent) hold shares in the company. Overall, the Board of Directors holds 8.15 percent in the share capital of the company and the Supervisory Board 0.53 percent. The members of both executive boards together hold shares of 8.68 percent in the company.

REMUNERATION REPORT

The details on the remuneration system of the Board of Directors and the Supervisory Board, as well as an itemisation of remuneration, are included in Section 4 of the Management Report.

ACTIVE DIALOGUE

Phoenix Solar AG reports extensively and in a timely fashion to all target groups. The development of business as well as the earnings situation and the financial position are described by the company in its quarterly and annual reports. In addition, the company provides information on topical events in the form of press releases. Phoenix Solar AG fosters direct contact with analysts and investors in the context of regular capital market and investor conferences.

JOINT DECLARATION OF CONFORMITY

BY THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF PHOENIX SOLAR AG WITH 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 of the German Corporate Governance Code have been and will be complied with and to specify which recommendations are not and will not be complied with.

The Board of Directors and the Supervisory Board of Phoenix Solar AG herewith declare that the company has complied with and will comply with the recommendations of the Government Commission of the German Corporate Governance Code in the version dated 14 June 2007 since the submission of the last Declaration of Conformity, to the following exceptions:

ELECTRONIC NOTIFICATION OF THE CONVENING OF THE ANNUAL GENERAL MEETING, TOGETHER WITH THE CONVENTION DOCUMENTS, TAKING ACCOUNT OF APPROVAL REQUIREMENTS

in accordance with Code Item 2.3.2.
The Annual General Meeting of 25 May 2007 approved an amendment to the Articles of Association in respect of this Code Item. Since this date, this recommendation has been complied with.

APPROPRIATE DEDUCTIBLE IN THE D&O INSURANCE FOR THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

in accordance with Code Item 3.8
Phoenix Solar AG is of the opinion that a deductible for the members of the Board of Directors and the Supervisory Board would not constitute an additional motivation for due and diligent action by the members of the executive bodies. Furthermore, the responsibility under the law of the individual members in the event of wilful negligence or fraudulent breach of trust shall remain unaffected by any such deductible.

LONG-TERM SUCCESSION PLANNING OF THE SUPERVISORY BOARD TOGETHER WITH THE BOARD OF DIRECTORS

in accordance with Code Item 5.1.2
No formal procedure has been initiated to date. Nonetheless, the Supervisory Board is concerned with this issue.

AGE LIMIT FOR THE MEMBERS OF THE BOARD OF DIRECTORS

in accordance with Code Item 5.1.2
A general age limit for the members of the Board of Directors was and is not planned. The qualifications necessary for a member of the Board of Directors are above all knowledge, abilities and expert experience.

FORMATION OF A NOMINATION COMMITTEE

in accordance with Code Item 5.3.3
The Supervisory Board considers the selection of suitable candidates for the Supervisory Board to be the task of the executive body as a whole.

AGE LIMIT FOR MEMBERS OF THE SUPERVISORY BOARD

in accordance with Code Item 5.4.1
Similar to the issue of an age limit set for the members of the Board of Directors, the determinant criteria for membership of the Supervisory Board are first and foremost the qualifications and the experience of the respective candidate. Furthermore, an age limit would disproportionately limit the right of the Annual General Meeting to appoint members to the Supervisory Board.

ELECTION TO THE SUPERVISORY BOARD ON AN INDIVIDUAL BASIS

in accordance with Code Item 5.4.3
The last elections 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.

ACCOUNTING FOR THE CHAIR AND MEMBERSHIP IN COMMITTEES IN THE REMUNERATION OF THE SUPERVISORY BOARD

in accordance with Code Item 5.4.7
Separate remuneration for the Chair or membership in committees has not been provided for. Instead, the committee members receive attendance fees. The dedicated cooperation of the Supervisory Board in the committees is guaranteed through remuneration as such.

PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS WITHIN 90 DAYS

in accordance with Code Item 7.1.2
In order to ensure the high quality of the consolidated financial statements they are published within a period of four months after the end of the reporting period pursuant to Section 47 para. 2 of the Rules of the Frankfurt Stock Exchange.

Sulzemoos, 18 March 2008
Phoenix Solar Aktiengesellschaft

On behalf of the Board of Directors	On behalf of the Supervisory Board
Dr. Andreas Hänel	J. Michael Fischl
(Chairman of the Board of Directors)	(Chairman of the Supervisory Board)

Management Report on the Group

for the financial year
from 1 January until 31 December 2007

FOREWORD

This report is a description of the performance of the Phoenix Group in the financial year 2007. Alongside Phoenix Solar AG, the listed parent company, the Group comprises Phoenix Solar Energy Investments AG (formerly Phönix Projekt & Service AG) and its subsidiary Phönix SonnenFonds Verwaltungs GmbH, Phoenix Solar S.L., Madrid (formerly Phoenix Energía Solar S.L.), a Spanish subsidiary founded in 2006, and Phoenix Solar Pte Ltd, Singapore, in which a majority holding was acquired on 1 February 2007. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards.

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

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

1. GENERAL CONDITIONS

1.1 MACROECONOMIC TRENDS

International economic development varied in 2007. Whereas the underlying impetus promoting growth in the previous year remained for the most part intact, the high prices of energy and raw materials and the crisis which emerged in the financial markets in the summer had a braking effect on the economy during the rest of the year. In 2007, real economic growth of the most important economies therefore came to 2.7 percent as compared with 3.1 percent in the previous year. In the eurozone as well, real gross domestic product (GDP) stood at 2.6, thus down on the previous year's level of 2.9 percent.

The economic conditions in Germany, Spain, Italy and Greece are of primary importance for the business activities of the Phoenix Group. Although the economic upswing in Germany lost some of its momentum, it nonetheless held steady and recorded a growth of 2.5 percent (as against 2.9 percent in 2006) with brisk international demand contributing 50 percent of the increase. In Germany, the capital investments of companies rose in contrast to private consumption which stagnated. The labour market situation was particularly positive: With a good 39.7 million people in employment, the labour force reached its highest level since German unification.

The Spanish economy has been growing for years at an above average rate of almost four percent in a European comparison. In 2007, growth came to 3.8 percent. A determinant factor for this increase was once again gross capital expenditure which climbed 5.8 percent. In comparison, the expansion of the Italian economy developed at a much more moderate pace. This country's GDP in 2007 rose 1.8 percent, and capital expenditure advanced by a mere 1.3 percent. In Greece, overall economic growth in 2007 increased by 4.1 percent despite the negative impact of the widespread fires in the summer.

1.2 DEVELOPMENT OF THE PHOTOVOLTAIC SECTOR

The development of the photovoltaic sector in 2007 was supported by discussions about global climate change and the necessity of drastically reducing CO_2 emissions. These discussions led to far-reaching resolutions passed at EU level, including the mandatory expansion of renewable energies to make up 20 percent in the supply of energy by the year 2020. The German government has also set itself more ambitious goals in the use of renewable energies which are to have a share in the electricity supply of a minimum 25 to 30 percent by 2020.

As in the preceding years, 2007 was characterised by a shortage of solar silicon needed for the manufacturing of crystalline solar modules. Although solar silicon has again been released in larger quantities on the market, the volume of solar modules manufactured using silicon failed to satisfy the high global demand. The estimate for total volume of modules produced in the year 2007 comes to a peak power output of 2.25 gigawatt (GWp), up from 1.6 GWp in 2006 (Source: EPIA Workshop, Frankfurt, 14 December 2007). Other than in previous years, supply bottlenecks did not incur price increases. By contrast, prices at the solar module and system level declined substantially. The target return of investors in photovoltaic plants has therefore been secured, as has the basis for continued growth.

The ramping up of capacities for the production of crystalline modules and of solar silicon in particular is fully under way so that in 2009, or in 2010 at the latest, an end to the shortfall in silicon can be expected. In addition, capacities for manufacturing thin-film modules were raised in 2007. The world's leading manufacturer of crystalline modules, the Japanese company Sharp Corp., thus announced its intention of ramping up its thin-film module manufacturing to an annual capacity of more than one GWp by the year 2010. The global market leader in thin-film modules, the US company First Solar Inc., also intends to raise its manufacturing capacities swiftly to 1.01 GWp by the end of 2009.

The year 2007 was a very successful one for the German solar sector. In Germany alone, sales grew 23 percent to EUR 5.5 billion as against the previous year. In addition, the export volume climbed to EUR 2 billion. The number of jobs in the German renewable energies sector had risen to around 236,000 by year-end 2006, approximately 40,000 of which were created in solar companies. Jobs in the solar sector have meanwhile surpassed the level of most conventional energy industries. There is still no up-to-date data available for 2007. It can, however, be assumed that there has been a significant increase in the number of employed.

1.3 PROCUREMENT MARKET

On the procurement front, the availability of modules was a central issue in the reporting year as well. After the first quarter of 2007, prices began to go into a moderate decline in a market which was, however, still characterised by rising demand. There is therefore reason for continued concern about the long-term availability of products. Carefully observing the development of the availability of modules and improving the company's own procurement and supply situation are thus priorities for the future development of the Phoenix Group.

The shortage of crude polycrystalline silicon, which is the basic material for photovoltaic cells, has been the main reason for the bottlenecks in the photovoltaic industry in recent years. This situation has paved the way for the use of thin-film modules the manufacture of which requires a great deal less silicon and, in some technologies, none at all. In view of the aforementioned expansion of global production capacities, thin-film modules can be expected to take a significant share in the market in the coming years.

Basically, the shortfall in silicon is a problem which is less that of a scarce resource and more a production bottleneck. In this situation, the manufacturers maintain a strong market position in a market hallmarked by steadily rising demand which, in turn, influences purchasing negotiations.

The reporting year started off with high purchase prices for crystalline modules. This led to a delay in purchasing decisions owing to lower expectations of return. Only when prices declined at the end of the first quarter of 2007 could calculations with the appropriate returns be made again. This trend immediately discernibly filtered through on the sales side in the form of contracts concluded.

According to estimates by the European Photovoltaic Industry Association (EPIA), the German market was able to maintain its leading position in 2007. However, on the procurement side, international interdependencies are emerging which partly involve the manufacturer beginning to gear the module prices more strongly to national market conditions. For instance, individual manufacturers of modules destined for the Spanish market fix higher prices owing to the customarily higher margins which can be commanded in this market.

1.4 GERMAN SALES MARKET

The environment in Germany is a reliable basis for investment decisions. This is particularly true of the construction of large plants. By 2006 at the latest, the sector sees the market as return oriented.

The development of the German market got off to a slow start in the first quarter, influenced by the weather and by subsequent effects from 2006. Many customers hesitated in their investment decisions in the hope of price declines. As from March, the demand for photovoltaic systems accelerated sharply and remained at a high level throughout the rest of the year. At Phoenix Solar, new orders had risen to a record level by the end of the third quarter. Delays by manufacturers in delivery meant that this demand could not always be satisfied promptly.

1.5 INTERNATIONAL SALES MARKET

1.5.1 EUROPE

In Europe, Spain was the most important market, second to Germany. Demand was steadily on the rise against the backdrop of conditions which allows operators of photovoltaic systems to expect good returns. According to information from EPIA, the total output of photovoltaic systems installed in Spain in 2007 came to 350 MWp. The share of systems with an output of more than one megawatt is still very large, whereas the market for smaller systems continues to be of minor importance only.

The market in Italy with 50 MWp was still comparatively small and fell short of the high expectations. The only small share of projects realised stood in contrast to the large number of project applications. The market development is attributable to the uncertainty as to when photovoltaic systems can be connected to the grid and the resulting difficulties of financing.

In France, the market developed well, expanding to 40 MWp, up from 14 MWp in 2006, due to the considerable increase in feed-in tariffs for solar electricity (Source: EPIA Workshop, Frankfurt, 14 December 2007).

The Greek photovoltaic market, with a total of 0.6 MWp output installed, stagnated despite a renewable energy act passed in 2006 regulating feed-in tariffs. As in the preceding years, the majority of systems installed were standalone. 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, as well as the complicated process of approval which sometimes takes 24 months and longer.

The markets in the Benelux countries, Austria and Switzerland are only very small. Of these countries, Belgium is the only one with attractive legislation regulating feed-in tariffs for solar electricity which is, however, not uniform owing to regional provisions. The Belgian market was valued at a volume of around 7 to 10 MWp in 2007.

1.5.2 OUTSIDE OF EUROPE

The global demand for photovoltaic systems is also growing unabatedly. According to a conservative estimate of EPIA in December 2007, the peak power output installed this year came to 2.25 GWp. However, developments varied from region to region. Whereas the Japanese photovoltaic market, a few years ago the largest in the world, virtually stagnated in 2007, the markets in Europe and North America expanded swiftly. Along with the USA, where the market grew 84 percent to 259 MWp, South Korea in particular recorded the strongest growth with an increase of installed capacity of 140 percent (in a year-on-year comparison) to 50 MWp (Source: EPIA Workshop, Frankfurt, 14 December 2007).

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 roof-top-mounted systems and 6.5 percent for ground-mounted systems as per 1 January 2007. The remuneration rates were thus between 54.21 cents per kilowatt hour fed into the grid for façade-mounted systems up to 30 kWp and 37.96 cents for ground-mounted systems.

The EEG has promoted the swift expansion of photovoltaics in Germany. Since 1990, its contribution to electricity produced has risen from 1 to 2,220 GWh in 2006. Between 2004 and 2006 alone, the production of electricity by photovoltaic systems almost quadrupled, from 0.6 billion kWh to 2.2 billion kWh. Current data are not yet available for 2007, but it can be assumed that the production of electricity from photovoltaic systems has risen substantially again.

On 9 October 2007, the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (BMU) submitted a bill coordinated with the German Federal Ministry for Economy and Technology for a revision of the law governing renewable energies in the field of electricity. This bill, which has meanwhile been approved by the German federal cabinet, will be submitted in the first half of the year as part of the parliamentary procedure of discussion and agreement. The amended EEG in its current version provides for an acceleration of the annual lowering of remuneration for feeding into the grid for all system types as from 1 January 2009.

1.7 GENERAL CONDITIONS IN EU AND ABROAD

In 2007, the political and direct legal conditions remained for the most part stable in the international environment.

In Spain, the most important market alongside Germany, the Royal Decree 661/2007 which provides for an upper approval objective of 371 MWp is currently valid. As soon as 85 percent of this threshold has been achieved, a transition period of one year will enter into force during which all photovoltaic systems which are linked up to the public-sector grid will be compensated under the conditions of this Decree. Successor regulations have not yet been clarified. The threshold for new grid connections had already been reached by the second half of 2007.

In Italy, more administrative hurdles were abolished in 2007. Lack of opportunities for project financing and only hesitant implementation of grid connections by the grid operators led to banks pursuing a more restrictive policy in granting loans. The resulting uncertainty about expected return was a factor inhibiting faster market growth.

In Greece, a feed-in tariff law was passed in 2006 which, similar to the German EEG, provides for feed-in tariffs per kilowatt hour to be paid over a period of ten years (with a renewal option of another ten 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 capacity 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. However, practical implementation of this legislation is slow as the administrative authorities responsible are having to deal with a slew of applications.

In France, feed-in tariffs were newly regulated in June 2006, thus creating the prerequisites for the development of the solar market. Similar to Spain, the statutory provisions provide for an upper threshold of 490 MWp by the year 2015. 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 growth in the market will be sound and sustainable.

Outside Europe, in South Korea, for instance, and in some federal states in the USA, attractive subsidy programmes for grid-connected photovoltaic systems have been implemented. In California, by far the USA's largest photovoltaic market, the California Solar Initiative was passed in January 2006. Under this initiative an amount of USD 2.9 billion is to be made available for the promotion of solar electricity generation. Tax credits are due to expire in 2008 which may boost demand in the short term but give rise to expectations of a market decline in subsequent periods. 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.

All in all, 2007 was another year during which rising global demand for photovoltaic systems was hampered by the limited availability of solar modules. Procuring modules was therefore critical to the growth of the company in the past financial year.

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

2.1 BUSINESS MODE

The planned, swift growth of the Phoenix Group, in conjunction with the increasing internationalisation of its business, necessitated restructuring which was carried out together with the consultancy company McKinsey&Company Inc. Critical requirements of the market and business operations can now be better accommodated through the ensuing implementation of a functional-regional organisation structure. At the same time, swift reaction times to changes at short notice in a dynamic photovoltaic market have been enabled.

Phoenix Solar AG, founded in November 1999, is a leading systems integrator in the German and European photovoltaic sector. The company has stepped up its internationalisation strategy through the founding of two subsidiaries in Spain and Singapore and a strategic participation in Italy. At the operational level, Phoenix Solar is active in two complementary business segments: the Components & Systems and the Power Plants segments.

In the Components & Systems segment, Phoenix Solar offers tailored systems solutions and support in planning, logistics services and additional services (e.g. training) as a specialist wholesaler for grid-connected photovoltaic systems and components. The Power Plants segment provides the necessary planning services right through to the turn-key construction of photovoltaic plants through to megawatt dimensions, with follow-up operation and maintenance. Both business segments are replicated in the foreign subsidiaries.

The customers of the Components & Systems segment are resellers, for instance, electrical installation businesses, electrical retailers and wholesalers, heating / sanitary and roofer companies, as well as solar retailers. Along with private individuals, the customers of the Power Plants segment include customers from the retail market, industry and commerce, local authorities, as well as fund initiators and financial investors in particular who invest directly in photovoltaic systems.

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. Phoenix Solar therefore places special importance on a product and services range which is as broadly based and 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.

2.2 COMPETITIVE ADVANTAGES, STRENGTHS, CORE COMPETENCES

Phoenix Solar leverages synergies from linking its two business segments. In recent years, for instance, we used our experience in power plant construction to develop and optimise systems in the Components & Systems segment. Our own knowledge and our close ties with manufacturers were factors which contributed to optimising systems technology and lowering the system costs. The strong link between the two segments also enables the company to secure the purchasing of modules and other components from manufacturers on a more consistent basis.

The Phoenix Group has long-standing experience in the photovoltaic systems business and an established business model. Through the early entry of the German Phönix Solar Initiative (an initiative of the Bund der Energieverbraucher e. V. from which the company emerged) into the photovoltaic market in 1998, Phoenix Solar has in-depth knowledge of market conditions and is anchored in the market, which gives the company a clear competitive edge. In particular, management is distinguished by its experience of more than twenty years of the sector, by long-standing and established contact with companies, sectoral associations and the relevant research institutes.

As a supplier of a broad-based and innovative product portfolio, Phoenix Solar is flexible and customer oriented. Its versatile range includes solar modules in particular which are based on different technologies. The Phoenix Group is therefore not tied to one module technology but is able to offer photovoltaic systems in line with customer requirements and market developments. 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. Phoenix Group recognised and took account of the cost advantages accruing from these technologies at an early stage in the construction of photovoltaic systems.

Phoenix Solar has extensive expertise in the power plants business. In recent years, a large number of major power plant projects were realised by the Group. In this process, the company gained additional technical know-how in relation to the planning and installation of large-scale power plants, especially in the use of thin-film technologies. The company's firm intention is to enhance 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 GOALS

The Phoenix Group pursues the strategic objective of securing and strengthening its position internationally as a leading German supplier which operates independently from manufacturers in its core competence of photovoltaic systems technology. Phoenix Solar is striving 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 backdrop, Phoenix Solar has the following strategic goals:

- Consistent focusing on its core competence, photovoltaic systems technology
- Internationalisation of operations
- Extending its range of products and services offered in the area of thin-film technology
- Further cost optimisation of photovoltaic systems and the resulting cheaper generation of solar electricity

2.4 OPPORTUNITIES OF THE PHOENIX GROUP AND OF THE BUSINESS MODEL

The business model of the Phoenix Group is comparable with the business models of other listed photovoltaic companies only to a limited extent. Phoenix Solar focuses on system technology. From the standpoint of management, expanding business to include other technologies for generating electricity from renewable energies, such as wind or biomass, or on the manufacturing of upstream products, such as photovoltaic modules, is not expedient in achieving the company's goals.

A business model which concentrates on photovoltaic systems technology offers the best growth prospects in the long term. The forecast for the global photovoltaic market in the years ahead is strong expansion with above-average growth rates of more than 25 percent. The Phoenix Group is well positioned in this swiftly growing market to carve out a leading position worldwide. The company will press ahead with internationalisation with a view to developing new markets in the coming years.

2.5 LONG-TERM CORPORATE GOALS

Phoenix Solar is striving to attain growth rates which are higher than the average growth of the global photovoltaic market on a long-term basis. This necessitates a steadily rising share in the markets which the Group already covers and international expansion.

The market share of international markets is to be built up consistently to up to 50 percent of consolidated revenue by the year 2010. To date, international business has developed in line with plans. Accordingly, the revenue share, which climbed 4 percent in 2004 and 5.5 percent in 2005 to around 12 percent in 2006, has been raised to 27 percent in 2007.

In the Phoenix Group, processes are developed and maintained on an ongoing basis with the aim of identifying cost cutting potential in photovoltaic systems, which then can be offered on a more cost-effective basis. This active contribution enables the economic viability of the plant at the earliest possible time without government subsidies and incentive programmes.

2.6 LOCATIONS

The management of the Group, its administration as well as its international logistics and business in Germany is conducted by the parent company Phoenix Solar AG based in Sulzemoos near Munich. The Power Plants segment, consisting of the sales force Germany, power plant construction and the control centre (power plant monitoring), is located in the Ulm subsidiary. The subsidiary Phoenix Solar Energy Investments AG and its subsidiary Phönix SonnenFonds Verwaltungs GmbH also have their headquarters in Sulzemoos.

In its international business, the Phoenix Group is present in Spain through its subsidiary Phoenix Solar S.L. in Madrid and in Singapore through Phoenix Solar Pte Ltd. Phoenix Solar is represented in Italy through Rome-based Renewable Energies Development 2002 S.r.l. (RED 2002). For the purposes of expediting large photovoltaic projects, the parent company also maintains an additional office in Madrid which goes by the name of Phoenix Solar AG Establecimiento Permanente.

2.7 CHANGES IN THE EXECUTIVE BODIES OF THE PARENT COMPANY

The members of the Board of Directors are appointed by the Supervisory Board in accordance with the Articles of Association.

With effect from 1 January 2007, the Board of Directors of Phoenix Solar 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 Phoenix Solar AG in July 2000 and, as an authorised representative, has built up the aforementioned areas in the company.

2.8 PHOENIX SONNENAKTIE® (share of Phoenix Solar AG)

The shares of Phoenix Solar have been listed on the official market (Prime Standard) of the Frankfurt Stock Exchange with additional obligations from admission since 27 June 2006. All

6,077,000 shares are bearer shares admitted under the international securities ID number DE000A0BVU93 and are tradable. The arithmetical portion of a share in the share capital is EUR 1. The share capital comes to EUR 6,077,000.

Based on the share option plan approved by the Annual General Meeting of 7 July 2006, 33,250 options were allotted on 10 September 2007 for the first time.

In 2007, the share recorded growth of 153 percent. The closing price on the first day of trading stood at EUR 16.20, and the closing price of the year on 28 December 2007 posted EUR 41.00. Market capitalisation on 31 December 2007 was around EUR 249 million.

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

As per 31 December 2007, the subscribed capital of Phoenix Solar AG came to EUR 6,077,000. It is divided into an equal amount of no-par shares made out to bearer. 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. No approval by the company is necessary for the transfer of bearer shares. There were no shares with special rights in circulation.

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

There is no indirect voting right control exercised by employees.

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 German Stock Corporation Act (AktG) are applicable. The Supervisory Board is empowered to approve amendments to the Articles of Association which only affect the version.

On 25 May 2007, the Annual General Meeting passed the following resolutions on the authorisation of the Board of Directors in respect of the option of issuing or buying back shares:

1. The authorisation granted by the regular Annual General Meeting of Phoenix Solar AG on 7 July 2006 and restricted until 1 December 2007 for the purchase of up to 552,500 own shares and their application was not used and has been rescinded.

2. The Board of Directors is authorised, 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 607,700 shares, via the stock exchange or by a public purchase offer made to all shareholders and

- in observance of the equal treatment of all shareholders, to sell these shares whereby this may not take place for the purpose of trading in own (treasury) shares, or
- in the context of a business combination with companies or as part of the acquisition of companies or participations to offer them or assign them or
- to retire shares without further resolution by the Annual General Meeting.

In as much as the share capital at the time of purchasing the shares is higher or lower than should be at present, the indicated number of units of the shares to be acquired will be lowered or raised accordingly. In respect of the treasury shares held by the company, the amount may at no time exceed ten percent of the share capital.

This authorisation is valid until 24 October 2008.

3. In the event of purchase via the stock exchange, the countervalue paid per share (excluding transaction costs) may not exceed more than five percent than the price of the share calculated on the trading day through opening auction in XETRA trading (or a comparable successor system).

4. In the event of a public purchase offer directed to all shareholders, the purchase price offered or the threshold of the purchase price margin offered per share (excluding transaction costs) may not exceed or be lower than 20 percent of the closing price of the share in XETRA trading (or a successor system) on the stock exchange day prior to the date when the offer is published. If the share price exceeds the purchase price offered after publication of a formal offer, the share price offered can be adjusted. In this case, the respective price on the last trading day prior to the publication of the adjustment of the offer will be taken as a basis. The volume of the offer may be restricted. If the whole subscription of the offer exceeds this volume, acceptance must be made on a quota basis. Similarly, a preferential acceptance of lower numbers of shares up to 100 units of shares tendered per shareholder can be provided for.

5. The Board of Directors may, subject to approval by the Supervisory Board, avail itself of the authorisation in either one or several tranches.

The price at which the shares may be issued as part of business combination or the acquisition of companies or participations in third parties may not exceed more than five percent of the price calculated upon the opening auction of the shares (excluding transaction costs) in XETRA trading (or a comparable successor system) on the day of the binding agreement with the third party.

6. The subscription rights of the shareholders to own shares will be excluded in the event that these shares are offered and assigned to third parties as part of a business combination and in the context of purchasing companies or participations.

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 one or several times through the issuing of new bearer shares against cash and / or non-cash contribution 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 is raised contingently by up to a further EUR 552,500 through the issuing of up to 552,500 new shares made out to 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 2011 in the context of authorisation 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. The new shares shall 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 unappropriated retained earnings.

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

4. REMUNERATION REPORT

4.1 BASIC COMPONENTS OF THE REMUNERATION SYSTEM PERTAINING TO THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

Pursuant to Section 315 para. 2 item 4 German Commercial Code (HGB), the basic components of the remuneration system pertaining to the total remuneration of the Board of Directors and the Supervisory Board of Phoenix Solar AG, as laid down under Section 314 para. 1 item 6 German Commercial Code, are explained in the following. The remuneration report accords with the provisions set out under the German act on the disclosure of executive board member remuneration (VorstOG) and the recommendations of the German Corporate Governance Code and itemises the remuneration of the Board of Directors and the Supervisory Board.

4.2 BOARD OF DIRECTORS

The members of the Board of Directors receive remuneration which is split into fixed and variable components. The performance and the responsibility of the individual Board of Directors is remunerated depending on the business situation and the success of the company. The granting of share options is a further component with a long-term incentive effect, geared to the future development of the company.

The total remuneration of the Board of Directors in the financial year 2007 is made up of the following components:

a) Fixed remuneration
This component comprises a contractually fixed monthly salary which is approximately the same for all Board members, along with various fringe benefits. The company provides each Board member with a company car and assumes payment of accident insurance premiums.

b) Performance-based remuneration
The variable remuneration component is made up of the payment of an annual bonus, a premium and the granting of subscription rights to the shares of Phoenix Solar AG. Based on the annual planning, targets are agreed with the Supervisory Board for the payment of bonus and premium. The bonus payment is based on the qualitative and quantitative goals agreed.

- The qualitative goals are defined depending on the individual scope of tasks of the Board members and may be both strategic and operational.
- There are quantitative goals set for revenues and EBIT at Group level. In the calculation of to what degree goals have been fulfilled, revenue and EBIT are weighted one third to two thirds respectively. If the goals are 100 percent achieved, the bonus is paid in full. If performance has fallen short of the goal, the bonus will be lowered on a pro rata basis. A pro rata basis is, however, tied to the minimum level of goals being achieved.

The proportion of performance-based remuneration in overall remuneration comes to around 40 percent, assuming goals have been achieved in full. This underscores the performance oriented remuneration system which has been set in place for the Board of Directors of Phoenix Solar AG. If, in the year 2007, the ambitious target set for EBIT at Group level is exceeded, an additional payment of a fixed premium will be made.

Share-based remuneration components with long-term incentive effect are granted to the members of the Board of Directors under the Share Option Plan of Phoenix Solar AG. In the past financial year, 18,000 share options were allotted to the members of the Board of Directors. The number of subscription rights granted is based on the performance of Board members and the achieving of goals set. The subscription price is calculated from the average of XETRA closing prices of the share ascertained on the five trading days before allotment. The share options may be exercised for the first time upon expiry of two years after the Grant Date ("Waiting Period"). The options can be exercised within a period of five years following the waiting period ("Option Period"). As before, the closing price in the first year when rights can be exercised must exceed the strike price by 40 percent on ten consecutive trading days. In subsequent years, the exercising of rights necessitates a gain in value of another 20 percent in the respective year.

Total remuneration of the four members of the Board of Directors came to EUR 1,315,000 in the financial year 2007 (2006: three members; EUR 500,000). The following table shows itemised remuneration:

Remuneration in k€	Fixed components (incl. ancillary benefits)		Performance-based components (incl. premiums)		Components with long-term incentive effect		Total	
Dr. Andreas Hänel	140	(140)	152	(27)	46	(0)	338	(167)
Manfred Bächler	143	(130)	143	(48)	46	(0)	332	(178)
Dr. Murray Cameron	132	(132)	143	(23)	46	(0)	321	(155)
Sabine Kauper	133	(0)	145	(0)	46	(0)	324	(0)
Total	**548**	**(402)**	**583**	**(98)**	**184**	(0)	**1.315**	**(500)**

2006 figures in brackets

There are no pension commitments for the members of the Board of Directors. In the event of death, dependents will receive payment of the salary for a period of six months. Commitments for the termination of office were not part of the contracts concluded nor was a change-of-control clause included. The members of the Board of Directors have not been granted a loan.

4.3 SUPERVISORY BOARD

The remuneration of the Supervisory Board was determined and resolved pursuant to Section 11 of the Articles of Association by the Annual General Meeting on 7 July 2006. The remuneration comprises a fixed and a variable, performance-based component, thereby taking account of the work of the members of the Supervisory Board and the business situation of the company.

a) Fixed remuneration
The members of the Supervisory Board receive an amount of EUR 5,400 in remuneration at the end of the year. The Chairman of the Supervisory Board receives three times this amount and his deputy one and a half times. As a fringe benefit, the company undertakes payment of the accident insurance premium for the Supervisory Board members. The members of the Supervisory Board receive EUR 500 each for participation in meetings of the Supervisory Board and of the committees.

b) Performance-based remuneration
Based on an EBIT ascertained from the financial statements drawn up under German commercial law, the Supervisory Board members receive an additional annual bonus. This bonus comes to EUR 750 per EUR 1.0 million of the average EBIT achieved in the last three years. Also in this case, the Chairman of the Supervisory Board receives three times this amount and his deputy one and a half times. The remuneration of the Supervisory Board does not include a long-term component geared to the success of the company.

There were no consultancy contracts between the company and the members of the Supervisory Board. Similarly, the Supervisory Board members have not been granted a loan by the company.

All in all, the remuneration of the members of the Supervisory Board came to EUR 117,000 in 2007 (2006: EUR 83,000). Remuneration has been itemised in the following table:

Remuneration in k€	Fixed components (incl. attendance fees)		Performance-based components		Components with long-term incentive effect		Total	
J. Michael Fischl	22	(21)	15	(5)	0	(0)	37	(26)
Ulrich Fröhner	12	(12)	8	(2)	0	(0)	20	(14)
Ulrich Th. Hirsch	10	(9)	5	(2)	0	(0)	15	(11)
Prof. Dr. Klaus Höfle	10	(10)	5	(1)	0	(0)	15	(11)
Dr. Patrick Schweisthal	10	(9)	5	(1)	0	(0)	15	(10)
Prof. Dr. Thomas Zinser	10	(10)	5	(2)	0	(0)	15	(12)
Total	**74**	**(70)**	**43**	**(13)**	**0**	(0)	**117**	**(83)**

2006 figures in brackets

5. BUSINESS PERFORMANCE IN THE FINANCIAL YEAR 2007

5.1 GENERAL DEVELOPMENT

In Germany, Spain and Italy, the Phoenix Group's most important markets, demand for Phoenix photovoltaic systems remains at a consistently high level. The high volume of revenue generated by the Components & Systems segment and the successful completion of large-scale photovoltaic plants abroad were the main drivers of growth in the third quarter. The market environment is reflected in the positive revenue and earnings trend.

5.2 REVENUE AND EARNINGS FORECASTS

The Phoenix Group achieved revenue of EUR 260.1 million, which is an increase of 118.6 percent compared with the previous year. EBIT came in at EUR 22.3 million and was thus 365 percent higher year on year.

The initial expectation of the Board of Directors for the financial year 2007 was for revenues of EUR 200 million and an EBIT of EUR 9 million. The successful course of business in the financial year led to revenue and EBIT expectations for the Group being lifted to more than EUR 200 million and EUR 11 million respectively as per 31 October 2007.

Owing to a mild winter and the ensuing better conditions for construction, these expectations were even exceeded. Given a higher availability of modules than assumed at the time of planning, a procurement target of 60 to 70 MWp module output was envisaged for the year; in effect, 72 MWp were actually realised.

In 2008, the Board of Directors assumes that, given module availability of 100 MWp, revenue of substantially more than EUR 300 million and an EBIT of around EUR 18 million can be achieved.

6. EARNINGS, FINANCIAL POSITION AND NET WORTH

6.1 EARNINGS

SUMMARISED INCOME STATEMENT

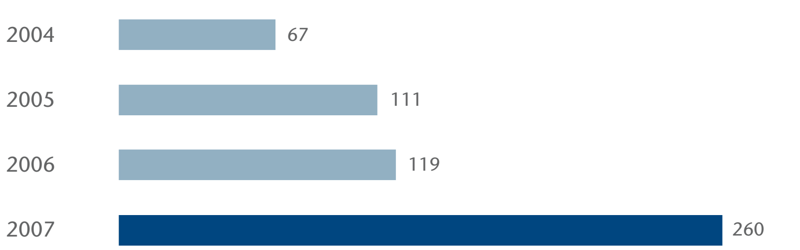
in k€	2007	2006	2005
Total revenues	260,118	118,994	111,115
Other operating income	1,144	1,134	1,252
Cost of materials	220,881	103,146	95,116
Personnel expenses	7,956	4,833	3,702
Depreciation and amortisation	313	236	253
Other operating expenses	9,908	7,144	5,600
Result from associated companies	55	17	15
EBIT	22,259	4,786	7,711
Financial result	– 687	6	127
Net income before income taxes (EBT)	21,572	4,792	7,838
Income tax	7,101	1,766	2,888
Minority interest	10	– 2	0
Consolidated net income for the period	14,481	3,024	4,950

6.1.1 REVENUES

In the financial year 2007, the Phoenix Group raised revenues by 118.6 percent to EUR 260.1 million as against the previous year. This is the highest revenue achieved to date in the history of the Group.

Strong growth was attributable to the positive development in domestic and international business. Spanish Phoenix Solar S.L. in particular raised its share in consolidated revenues from 3.8 percent in 2006 to 9.7 percent. The new subsidiary Phoenix Solar Pte Ltd, Singapore, contributed revenues of EUR 0.1 million for the first time (share in consolidated revenues of 0.05 percent).

REVENUE TREND IN A YEAR-ON-YEAR COMPARISON € million



Sales growth was recorded in all business segments, with the international sales of all segments achieving a substantial increase from EUR 14.15 million in 2006 to EUR 70.4 million in 2007.

Total revenues generated by the Phoenix Group in 2007 are allocated to the various segments as follows: EUR 129.3 million to the Components & Systems segment (49.7 percent), EUR 130.7 million (50.3 percent) to the Power Plants segment and EUR 0.1 million (0.05 percent) to the Other Activities segment.

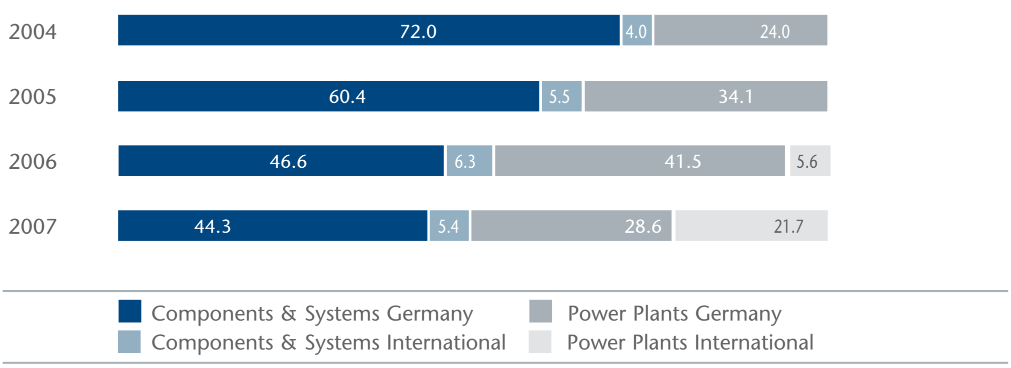
Of the revenues achieved by the Components & Systems segment, EUR 115.2 million (44.3 percent of consolidated revenues) were attributable to business in Germany and EUR 14.1 million (5.4 percent of consolidated sales) to international business. Despite the nominal substantial increase in domestic revenues (EUR 60.1 million) in this segment, the percentage share in consolidated revenues fell slightly from 46.6 percent (2006) to 44.3 percent in the reporting year.

Of the revenues achieved by the Power Plants segment, EUR 74,3 million (28.6 percent of consolidated revenues) were attributable to business in Germany and EUR 56.4 million (21.7 percent of consolidated revenues) to international business. Accordingly, domestic revenues rose by EUR 24.5 million (49.2 percent) and international revenues by EUR 49.8 million (748 percent) as against the previous year's figures. The sharp growth in international revenues is mainly attributable to the 6.5 MWp "La Solana" power plant in Spain, the Group's largest power plant project to date.

In the Other Activities segment, 100 percent of revenues were generated in Germany.

Germany, with a share of 72.9 percent (EUR 189.6 million) remained the most important market in 2007.

PERCENTAGE DISTRIBUTION OF REVENUES IN A YEAR-ON-YEAR COMPARISON 100 %



6.1.2 OTHER OPERATING INCOME

Other operating income of EUR 1.14 million remained virtually unchanged from the previous year (EUR 1.13 million). As in the previous year, the largest individual position was non-cash release of provisions (EUR 0.4 million; 2006: EUR 0.3 million) and income from share price gains of EUR 0.3 million (2006: EUR 0.1 million).

6.1.3 COST OF MATERIALS

The cost of materials rose owing to a higher level of sales, from EUR 103.1 million in 2006 to EUR 220.9 million in the reporting year. With an increase of 114.1 percent, the cost of materials has developed appropriately in proportion to sales growth (118.6 percent).

Expenses for services outsourced included in the cost of materials totalled EUR 38.2 million in the reporting year, up from EUR 15.7 million in 2006. This is attributable to the above-average increase plant construction activities.

6.1.4 PERSONNEL EXPENSES

The consistent implementation of the growth strategy necessitated the hiring of new personnel in 2007, which caused personnel costs to rise to EUR 7.9 million in the reporting year, up from EUR 4.8 million in 2006. The personnel expense ratio was, however, optimised: it fell from 4.1 percent (2006) to 3.1 percent (2007). The average number of employees came to 125 staff members in 2007 (including four members of the Board of Directors) as compared with 90 in 2006.

6.1.5 DEPRECIATION AND AMORTISATION

Depreciation and amortisation relates to write-downs on intangible assets and property, plant and equipment. The business model of Phoenix Solar AG requires only a low ratio of fixed to total assets. 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 operations in Ulm as well as in the sales companies abroad.

Despite the substantial increase in total revenues, depreciation and amortisation, which came to EUR 0.3 million, remained virtually unchanged from level of EUR 0.2 million in 2006.

6.1.6 OTHER OPERATING EXPENSES

The development of Other operating expenses reflects the fact that, despite its clear pursuit of a growth strategy, the Phoenix Group does not neglect cost management. In relation to total revenues, these costs were reduced in the reporting year to 3.8 percent, down from 6.0 percent of sales (2006). In absolute figures, this represents an increase from EUR 7.1 million in 2006 to EUR 9.9 million in the year under review.

As in 2006, the largest cost group were the administrative costs which came to EUR 4.1 million (2006: EUR 2.6 million). The cause of this 58.6 percent increase lies in the considerably higher volume of business and in the consistent pursuit of the long-term corporate strategy.

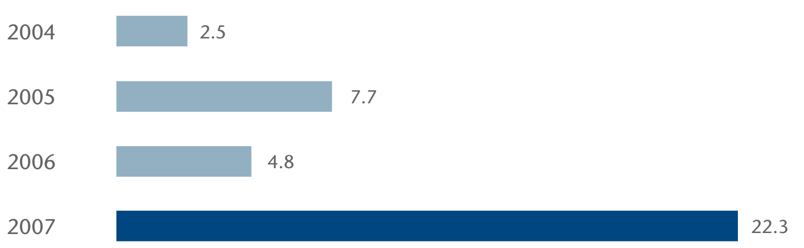
The Phoenix Group spent EUR 0.13 million on research and development (2006: EUR 0.02 million).

6.1.7 CONSOLIDATED PROFIT

Earning before interest and taxes (EBIT) of Phoenix Solar came to EUR 22.3 million, which is the best result in the history of the Group and represents an increase of 365 percent as against the previous year. The result is mainly attributable to strong revenue growth (118.6 percent as against 2006) and a moderate development of costs. The ratio of the cost types which have an impact on EBIT to sales stood at only 91.9 percent in 2007 in comparison with the previous year's figure of 96.6 percent.

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

DEVELOPMENT OF GROUP EBIT IN A YEAR-ON-YEAR COMPARISON € million



As per 31 December 2007, Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar 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 proportion of the result of associated companies due to the Phoenix Group stood at EUR 54,869 (2006: EUR 16,561).

Tax expenses in the reporting year came to 33 percent of profit before taxes (2006: 37 percent). The decline is mainly attributable to the reduction in the tax rates in Germany and in Spain.

The basic and the diluted earnings per share of the parent company climbed to EUR 2.38, up from EUR 0.55 in 2006.

6.2. FINANCIAL POSITION AND NET WORTH

SUMMARISED CONSOLIDATED CASH FLOW STATEMENT IN A YEAR-ON-YEAR COMPARISON

in k€	2007	2006	2005
Consolidated net income before taxes and minority interest	21,572	4,792	7,838
Cash flow from operating activities	4,788	– 14,907	11,636
Cash flow from investing activities	– 1,537	– 1,016	– 120
Cash flow from financing activities	– 420	7,023	5,179
Net changes in cash and cash equivalents	2,831	– 8,900	16,695

The business success of the Phoenix Group is reflected in the cash flow from operating activities, which improved considerably as compared with the previous year, from EUR – 14.9 million to EUR 4.8 million.

The cash flow from investing activities had changed only slightly to EUR – 1.5 million as against the previous year (2006: EUR – 1.0 million). Influencing factors are investment in intangible assets and property, plant and equipment (EUR 1.1 million) and the purchase of a participating interest in Phoenix Solar Pte Ltd, Singapore.

Funds of EUR 0.4 million were paid as part of the financing activities in the reporting year. The largest individual position was the distribution of dividend of EUR 0.6 million.

Cash and cash equivalents rose to EUR 14.0 million as against the previous year's figure of EUR 11.1 million.

The liquidity of the Group was ensured at all times.

The monitoring, planning and control of financial risks to safeguard operational success is the task of Group Treasury. 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.

For the purpose of financing the growth of the company, there are project financing, bank guarantees and current account lines of EUR 131.8 million, of which EUR 31.7 million had been utilised by the reporting date. Of this amount, EUR 25.9 million were in the form of guarantees. Until further notice, lines of EUR 97.8 million and of EUR 24.0 million, limited until 30 June 2008, as well as EUR 10.0 million limited until 31 December 2008, have been made available.

In connection with the planned growth of the Phoenix Group, negotiations are currently being conducted with the principal banks on a syndicated loan for medium-term Group financing in which the existing lines are to be integrated.

In particular the purchase of intangible assets and investments in property, plant and equipment of EUR 1.1 million in the reporting year lead to non-current assets increasing by EUR 0.8 million.

Trade receivables stood at EUR 18.3 million, which is EUR 2.2 million higher than the previous year's figure, 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.

Changes in non-current provisions were primarily attributable to guarantees for legal and contractual guarantee obligations vis-à-vis customers in the amount of EUR 0.6 million as per the reporting date (2006: EUR 0.5 million) and the increase in current provisions by EUR 0.2 million as against EUR 0.8 million in 2006.

Equity capital climbed from EUR 33.3 million to EUR 47.3 million, which corresponds to an equity ratio of 61.4 percent (2006: EUR 61.7 percent).

All in all, the Board of Directors assesses the business situation of the company as positive.

SUMMARISED BALANCE SHEET IN A YEAR-ON-YEAR COMPARISON

ASSETS	31/12/2007		31/12/2006		31/12/2005	
	in k€	%	in k€	%	in k€	%
Non-current assets	5,331	6.9	3,145	5.8	2,174	5.9
Current assets	71,771	93.1	50,864	94.2	34,157	94.1
Total assets	**77,102**	**100.0**	**54,009**	**100.0**	**36,331**	**100.0**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2007		31/12/2006		31/12/2005	
	in k€	%	in k€	%	in k€	%
Equity	47,326	61.4	33,346	61.7	23,244	64.0
Non-current liabilities and provisions	4,089	5.3	758	1.4	446	1.3
Current liabilities and provisions	25,687	33.3	19,905	36.9	12,641	34.7
Total assets	**77,102**	**100.0**	**54,009**	**100.0**	**36,331**	**100.0**

7. SEGMENTS

7.1 COMPONENTS & SYSTEMS

The Components & Systems segment continues to be dominated by the German market. The share of international business comes to around 11 percent of total segment revenue, determined by the special situation in the international market in which demand for photovoltaic plants is growing steadily, but where unresolved issues about financing or laborious approval procedures are hampering accelerated market growth.

In Italy, an increasing number of small and medium-sized photovoltaic systems were completed via the RED 2002 participation. Protracted approval procedures, delays in grid connection and a restrictive lending policy of banks make it difficult for investors, especially in the case of projects involving large-scale plants which need to be implemented swiftly.

The Spanish market is strongly oriented towards business with large-scale power plants. Sales in the Components & Systems segment are still of secondary importance in this country.

A gratifying development is the success in serving the Belgian and French markets through contractually obligated partners. We expect positive development in these markets in the years ahead.

In Germany, business was initially very modest at the start of the year owing to a lowering of expectations of return for investors. However, by the end of the first quarter of 2007, there was a notable increase. Stable prices and a recovery in investment propensity, particularly in the farmer customer group, were the cause of this positive development.

Compared with the previous year, the revenues of the Components & Systems segment have risen sizeably by 106.9 percent to EUR 129 million. Revenues from domestic business and international business came to EUR 115 million and EUR 14 million respectively. Orders on hand of the segment had grown again by 31 December 2007 and stood at EUR 36 million.

7.2 POWER PLANTS

Revenues and order volume in the Power Plant segment again recorded strong growth in the reporting year. Notable is the fact that the first large-scale projects abroad made a considerable contribution. All large-scale projects under construction are being built to schedule without any delays worth mentioning.

Phoenix Solar signed a long-term agreement with Grünwald-based KG Allgemeine Leasing GmbH & Co. (KGAL) in September 2007. Under this agreement, the Phoenix Group will develop large-scale power plants on behalf of KGAL and build them in its capacity as general contractor. The investment volume for the period from 2008 to 2010 comes to at least EUR 275 million. Target markets are Germany, Spain, Italy, Greece and France and, in the future, other countries where the conditions are suitable for business. Since 2005, Phoenix Solar has completed a number of photovoltaic plants on behalf of KGAL.

Phoenix Solar installed more than 10 MWp in Spain in 2007. Work on the 6.5 MWp "La Solana" project has been concluded for the most part. According to the Spanish grid operator, connection to the grid has been planned for the first quarter of 2008.

In Germany, a series of power plants were built to schedule and connected to the grid. The demand for new projects continues unabated.

Compared with the previous year, the revenues of the Power Plants segment have risen by 131.7 percent to EUR 131 million, thereby reaching their all-time high. Revenues from domestic business and international business came to EUR 74 million and EUR 56 million respectively. Owing to changes in subsidy measures in 2007, the highest revenues were achieved in the fourth quarter.

Orders on hand in the Power Plants segment stood at EUR 73 million as per 31 December 2007, an amount which already includes revenues of EUR 67.2 million from long-term construction contracts.

Also in terms of services provided there were significant developments in 2007. The control centre in Ulm had raised its portfolio of connected power plants to 35 power plants with a peak power output of 44 MWp (2006: 19 MWp) by the reporting date.

8. GROUP COMPANIES

8.1 PHOENIX SOLAR ENERGY INVESTMENTS AG

The company was founded on 7 October 1998 under the name of 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. In the Annual General Meeting of 12 December 2007, the renaming of the company as Phoenix Solar Energy Investments Aktiengesellschaft (PSI) was approved. The new name was entered into the Commercial Register of the District Court of Munich (HRB 130342) on 13 December 2007.

The share capital came to EUR 132,000, divided into 132,000 registered shares, each of one euro. It remained unchanged in the financial year. Phoenix Solar AG holds a hundred percent of the shares. With net income for the financial year of EUR 1,754,715.28 and profit from previous years, capital amounts to EUR 2,048,772.59.

8.1.1 THE BOARD OF DIRECTORS AND HUMAN RESOURCE DEVELOPMENT

The company is represented by the two Board members Dr. jur. Torsten Hass and Ralph Schneider who both have sole power of representation. At the end of 2007, the company had eight employees.

8.1.2 PARTICIPATING INTERESTS

Phoenix Solar Energy Investments AG holds all the shares of Phönix SonnenFonds Verwaltungs GmbH; the main task of the latter is to manage Phönix SonnenFonds (solar funds). Phönix SonnenFonds Verwaltungs GmbH closed the financial year 2007 with a loss of EUR – 4,105.30. The sole managing director of Phönix SonnenFonds Verwaltungs GmbH is Monika Mittelhammer.

The company holds a 50-percent stake in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG with its principal place of business in Grünwald which, in turn, holds all the shares in Kalenta Solar M.E.P.E., Greece.

8.1.3 BUSINESS PERFORMANCE IN THE FINANCIAL YEAR 2007

The company cooperated with Phoenix Solar AG in the development and realisation of thirteen ground-mounted photovoltaic plants in the financial year 2007. Apart from project development, the main focus of its activities lies in customer acquisition, financial and legal structuring and assistance in contractual negotiations.

Business activities accelerated in comparison to the previous year. All in all, project development contracts were concluded for thirteen projects with a total volume of 28.5 MWp. Of this volume, 18.6 MWp were completed and invoiced in the reporting year. The completion of the other plants has been scheduled for the first quarter of 2008.

Of the aforementioned projects, eight with an output of 22.7 MWp were attributed to investors, four with a total of 4.8 MWp to large general contractor agreements carried out on behalf of the parent company.

The "La Solana" project (6.5 MWp) marked the entry into the Spanish market. This project was developed together with the parent company, sold to fund shareholders of KGAL, and construction work completed for the most part in the reporting year. The project made a major contribution to the financial success of PSI.

To facilitate market entry into Greece, a joint participation was taken in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG together with KGAL. In the reporting year, the company closed an agreement on a project development of around 25 MWp with a Greek project developer. The first photovoltaic projects from this agreement are expected in 2008.

In addition to the aforementioned jointly held company, a framework agreement was concluded with KGAL and the parent company. The investment volume of this agreement comes to more than EUR 275 million for the period from 2008 to 2010.

The customer base was expanded to include more institutional investors. First projects have already been realised with these customers.

In order to be in a position to efficiently carry out the project development, planning and construction of many large-scale power plants in a number of different countries the company was entrusted with developing appropriate processes and structures and implementing them groupwide. In the meantime, PSI has also taken over the control of the project development activities of the Group.

8.1.4 OUTLOOK

The management of PSI assumes that, in the financial year 2008, large-scale power plants with a peak power output similar to that of 2006 will be sold to institutional buyers in Germany and in the rest of Europe. Owing to the higher proportion of international business, rising revenues in relation to installed output are expected. Cooperation between the parent company, especially in the power plant construction business, and its associated companies abroad is to be stepped up.

8.2 PHOENIX SOLAR S.L., MADRID

Phoenix Solar AG has held 95 percent of the shares in Phoenix Solar S.L., Madrid, Spain (formerly Phoenix Energía Solar S.L.) since April 2006. The remaining five percent are held by the local managing directors.

In the person of Francisco Conesa Cervantes, the company is headed by an expert who has more than 15 years experience in the sector. Under his management, Phoenix Solar S.L. will expand the sales activities of the Component & Systems segment in Spain and develop the Portuguese market. At the end of the year the company had five employees (2006: three).

In the second year of its operations, Phoenix Solar S.L. fully met expectations by generating revenues of EUR 25.2 million (2006: EUR 4.5 million). Through contacts made in 2006 and buoyed by the extremely swift development of the market, the company lifted EBIT to 7.0 percent of sales (2006: 1.3 percent).

8.3 PHOENIX SOLAR PTE LTD, SINGAPORE

With effect from 1 February 2007, Phoenix Solar AG purchased a participation of 75 percent in Phoenix Solar Pte Ltd, a company founded in December 2006 and headquartered in Singapore. The purchase costs of the participation came to USD 375,000 (EUR 289,485.88). The remaining 25 percent are distributed among three other shareholders. In accordance with IAS 27, the company was fully consolidated in the consolidated financial statements of Phoenix Solar AG. The purchase price was fully funded (IAS 7.40).

In the first year, the company focused primarily on building up its structure and sales competence. To this end, it hired experienced experts as its staff. On the reporting date, the subsidiary had seven employees who generated revenues of EUR 0.1 million in the first year of operations. Owing to the start-up costs and sales achieved only at a later point in time, the subsidiary still had a negative EBIT of EUR –0.3 million in the reporting year.

As many manufacturers in Asia also approach the end customer in the role of direct suppliers, the newly founded company had to contend with a fierce price-led competitive environment. Nonetheless, the first orders for grid-connected systems to be built in 2008 were acquired.

All in all, the management of the Phoenix Group considers that with Phoenix Solar Pte Ltd the Group is well positioned for the development of the very promising markets of the Far East.

8.4 RED 2002, ITALY

Phoenix Solar AG has held a stake of 49 percent in the Italian company Renewable Energies Development S.r.l. (RED 2002) with headquarters in Rome since 1 January 2006.

The company concentrates exclusively on grid-connected photovoltaic systems. Its core business is the sale of small photovoltaic systems in the Italian market.

In 2007, the development of the Italian market again fell short of forecasts. The approval procedure is still very complex and, in the conception phase, investors of photovoltaic projects cannot bank on plans going to schedule in relation to the respective grid connection which, in turn, has an impact on expected return.

Coupled with the lack of confidence of banks in the reliability of the government, this has led to investors being prepared to participate in the building of photovoltaic systems but to the banks' lending policy being very restrictive.

Despite this difficult environment, the company succeeded in raising revenues to EUR 3.4 million through the sale of small- and medium-sized photovoltaic systems and achieving an EBIT of 2.9 percent of sales.

9. PROCUREMENT AND PURCHASING

The procurement strategy of the Phoenix 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 the business segments. A basic portion of the annual module requirement is secured through long-term contracts which nonetheless permit new products, suppliers and technologies.

In 2007, we procured 72 MWp worth of modules (2006: 36 MWp), of which just under 52 percent were thin-film modules. The main aim of procurement was to ensure the timely supply of modules for projects in Germany and in Spain, especially for the large-scale "La Solana" project. To ensure supply against the backdrop of rising demand and to keep purchasing conditions stable, the supplier portfolio was optimised in 2007.

The Phoenix Group has concluded a long-term framework agreement with First Solar, a leading manufacturer of thin-film modules, through to the year 2012. In May, the volume of modules in this agreement was raised by 123 MWp to a total of 396 MWp. There are a number of other framework agreements, for example with Schott Solar.

In 2008, we can expect to see the procurement situation change only gradually due to expanding capacities. New technologies ready for launching on the market, such as tandem modules, may cause distortions also in the demand for standard modules and therefore trigger price declines through temporary oversupplies. Weighing up the market risks and opportunities is important in this environment. Owing to the expected faster degression of remuneration for feeding into the grid under the EEG as from 1 January 2009, an increase in demand can be anticipated in Germany in the second half of 2008. Accordingly, the company assumes that there will be a sharp rise in procurement volume to around 100 MWp in 2008, which would represent an increase of around 40 percent in a year-on-year comparison. The share in thin-film modules is likely to rise to over 55 percent.

10. RESEARCH AND DEVELOPMENT

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 the envisaged reduction of system costs indirectly targeted through the EEG’s measure of lowering feed-in tariffs will be achieved. This means that the potential for lowering costs must be identified and implemented in respect of all components, i.e. not only modules, but also the mounting system, cabling and inverters, as well as engineering and installation.

With balance-of-system costs of ground-mounted photovoltaic plants in particular, the company has made significant progress despite a general rise in the price of raw materials, for copper, aluminium and steel. Without these reductions, adequate margins for ground-mounted systems in Germany would have scarcely been possible in 2007.

The string cabling systems were developed further to take account of the special requirements of some thin-film modules which resulted in enhanced security of the string cabling outside the generator connector box.

Moreover, technical developments are used for optimising costs of internal processes. For instance, the company had its own software developed for the planning of photovoltaic systems to be used by the sales force for joint planning measures in discussions with customers.

Phoenix mounting systems for the assembly of roof-top and ground-mounted systems was improved with a view to enhancing their flexibility for use with different types of modules.

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 in this development are the focus on technological maturity, cost-cutting potential and economic viability in a market environment subject to constant change. In this way, technological trends and developments can be identified at an early stage and the strategy of Phoenix Solar AG adjusted accordingly.

11. EMPLOYEES

Phoenix Solar owes its success first and foremost to the commitment and the skills and abilities of its employees. Human resource management was therefore primarily focused on creating a pleasant atmosphere of trust, along with the continuous professional development of all staff in 2007. In order to be an attractive employer in the future as well, and with a view to improving working conditions further and acquainting itself with the individual requirements in greater depth, the Phoenix Group took part, among other measures, in a nationwide research institute survey.

Another core issue was the building up of the workforce of the Phoenix Group by hiring qualified staff. By the end of the year, the number of staff had risen to 148 employees through 48 experts and managers joining the company (in 2006, this figure stood at 100 employees, excluding the Board members and freelancers).

The qualifications and continuous professional development of employees is promoted by special individual measures, such as in-house language training.

A core criterion of the long-term transfer of knowledge is the personal planning of the career of the individual employee, combined with an annual discussion of performance and the goals achieved.

Moreover, a coordinated expert and career oriented model has been established for each unit of the company. This model forms the basis both for internal measures for advancement as well as for intensified recruiting measures.

The Group motivates and supports its employees to have their own photovoltaic systems built or to participate in photovoltaic plants.

12. ENVIRONMENT AND CORPORATE RESPONSIBILITY

The Phoenix Group markets and sells products which, when used, contribute to protecting the climate. Photovoltaic systems operate silently and produce no damaging emissions. In the course of their life cycle, around ten times more energy is generated than was needed for their construction. They therefore make an important contribution aimed at reducing CO_2 emissions and at achieving an energy mix which is as compatible as possible with the climate and the environment.

In construction work on large-scale photovoltaic plants the Phoenix Group fulfils the standards set by the NABU (German association for the protection of nature) and of the BSW (German federal association of solar energy). The assembly system for ground-mounted photovoltaic power plants does not require any concrete foundation; surfaces are therefore not sealed and can be reused upon full decommissioning.

Accessories for Phoenix Solar turn-key plants are custom-made by a Caritas workshop staffed by disabled people in the area. In 2007, this cooperation was stepped up. In the same way, we support sports clubs and social organisations in the region.

The "Upper Bavaria Energy School" education project, designed to appeal to children, teenagers and adults, was promoted with the aid of Phoenix Solar with contributions in kind and cash funding. In addition, the company is committed to supporting the "Munich for Climate Protection" initiative of the City of Munich.

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 manufacturers of the paper bear the seal of the Forest Stewardship Council (FSC), which ensures that the products can be recycled.

Since January 2007, the offices in Sulzemoos have been heated by a wood chippings thermal power plant. The wood chippings are sourced mainly from the neighbouring forests.

13. RISKS AND OPPORTUNITIES REPORT

13.1 RISK MANAGEMENT SYSTEM

The Phoenix Group has based its definition of "risk" on the German accounting standard (DRS) which sees risk as the possibility of negative future developments in the financial position of the company. In the opinion of management, most 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 might exert a significant influence on the success of the company's business in the future.

The objectives, processes and distribution of tasks in the context of risk management are documented in the Risk Management Manual of Phoenix Solar AG.

In an ongoing process, the potential, newly identified and existing risks are reported by a group of defined employees in cross-functional positions by way of a standardised reporting system to the risk manager.

The risk manager conducts an analysis, assessment and documentation of the risks and informs the risk officer and the Board of Directors.

The risk officer reviews the risk assessment and determines measurements for counteracting the risk. Subsequent communication is made by the risk manager to all the relevant parts of the company and those responsible for risk.

13.2 SPECIFIC RISKS/MATERIAL OPPORTUNITIES AND RISKS

13.2.1 EXTERNAL OPPORTUNITIES AND RISKS

POLITICAL FACTORS

Despite the mostly stable political environment, changes in framework conditions in Germany such as, for instance, an amendment of the EEG, probably in 2009, may harbour risks. It must be assumed that feed-in tariffs will be subject to increased degression. Consequently, investments in photovoltaic systems may initially decline in 2009. In 2008, these circumstances may mean additional opportunities as they may appeal to the propensity of customers in Germany to invest. In markets such as Italy and Greece the still protracted channels of approval and lack of financing concepts are a hindrance to swift market development. The ensuing impaired opportunities may, however, be compensated by new subsidy programmes in all parts of the world (Canada, USA and France) in their effects on the expansion strategy of the Phoenix Group.

The government subsidy programme in Spain expires in September 2008. There are currently no concrete plans for successor regulations. The threshold for photovoltaic systems connected to the grid provided for under Royal Decree 661/2007 is likely to be achieved in the first half of 2008. These circumstances will probably trigger higher demand in the first half-year. As long as there is no clearly defined successor regulation, demand can be expected to decline.

The expiry of investment tax credits in the USA in 2008 for investments in facilities for sourcing regenerative energies will also lead to upfront investments in 2008. Based on the aforementioned, market saturation can be expected in the subsequent period in 2009.

SUPPLY OF RAW MATERIALS

The rising prices of raw materials can affect the price trend of solar modules and other components of photovoltaic systems, such as mounting 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 EEG remains unchanged.

The global scarcity of cost-effective crystalline modules predicted for 2008 as well continues to be a risk factor for the sector. Bottlenecks in delivery could swiftly drive up prices.

The increasing availability of crystalline modules and of thin-film modules in 2008 is likely to give rise to more pressure to consolidate in all links of the value chain. The possibility of suppliers of Phoenix Solar not holding their ground in the face of competition or discontinuing operations cannot therefore be entirely discounted. Through the selection and evaluation of the suppliers, as well as spreading the risk, the company attempts to identify default at an early stage and to limit the resulting effects. Delivery delays owing to insufficient production capacities of module manufacturers may lead to financing risks, both on the part of the Phoenix Group due to its prefinancing function and on the part of investors due to delayed return in the event of the commissioning of power plants at a later date.

COMPETITION

In its business of wholesale trading with components and systems, the Phoenix Group is active in a market environment where barriers to market entry are considered to be relatively low. The number of competitors may therefore rise, also through foreign companies entering the market. 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.

SALES

The company has signed a framework agreement with its current suppliers of thin-film modules on the supply of 396 MWp in the period up until 2012 at prices fixed for the individual years respectively. To avoid greater dependency owing to a concentration of volume on one supplier, supply agreements were signed in parallel with new suppliers. A risk which cannot be entirely excluded is that volumes 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 to sell components delivered, this would have a substantially negative effect on the earnings, financial position and net worth of the company. On the other hand, a contractually secured supplier relationship is an indispensable prerequisite for expected rising order volumes, linked to higher warehouse capacity which binds more capital. The inherent risk is the higher cost of borrowing which may erode return.

A general trend towards higher interest rates will have a negative impact on the return of photovoltaic systems. A persistent and unbroken development of this kind may cause demand on the investor side to fall.

EXCHANGE RATES AND EXPANSION

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

An accompanying factor of an expansion which includes countries outside the EU also harbours a considerably higher risk in relation to legal and political aspects, and the difficulty of assessing such risks can lead to unplanned cost burdens. On the other hand, the expansion results in an optimised use of Group central departments at the parent company across all quarters.

13.2.2 INTERNAL OPPORTUNITIES AND RISKS

TECHNICAL DEVELOPMENT

The Phoenix 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 Phoenix 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 other suppliers. In 2007, the share of thin-film modules in the total module volume had already reached almost 52 percent. The company has thus assumed a best-of-breed role in the German and European markets which is increasingly being perceived as such. Through its remarkable preliminary work and competence in systems technology and the construction of solar power 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.

The shortage to date in solar silicon is propitious for the accelerated market entry of thin-film modules. The Phoenix Group has positioned itself strategically in this segment, thereby enabling the company to build up a favourable competitive position. 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. There are, however, risks inherent in new technologies as well. 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 construction of large-scale photovoltaic plants in Germany and abroad is one of the core competences of the Phoenix 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 Phoenix 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 Phoenix Group has more than seven years experience in this segment, which is proof that the risks can be kept at a low level through appropriate management and measures.

PERSONNEL

The current management of the Phoenix Group has long-standing experience in photovoltaics, extensive experience of the market and contacts to the most important decision makers in the sector. The experience and knowledge of the Board members 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.

In the photovoltaic sector the struggle for qualified employees is intensifying. Targeted attempts to poach employees away may inflict great damage on the company, not only through know-how transfer but also because of the increasing length and the costs involved in hiring new staff.

EXPANSION, CAPITAL-RELATED AND OTHER ASPECTS

Acquisitions which take place within short intervals and the expansion of international subsidiaries harbour both opportunities and risks for the Phoenix Group. 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. Furthermore, there is a risk inherent in markets outside of Europe developing more slowly than originally anticipated.

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 the future, this risk was counteracted through the respective adjustments to inventories as per 31 December 2007.

The strong expansion of the Group, both in Germany and abroad, requires a great deal of capital. Nevertheless the risk of future liquidity shortfalls owing to cash flow fluctuations caused by dynamic growth must be limited. To this end, the company practices stringent liquidity controlling and is in constant contact with its principal banks so as to ensure that there are sufficient credit and project financing lines available. To this end, preparations are under way to obtain medium-term group financing via a syndicated loan. If a sufficient capital base cannot be created or credit lines are not available there is a risk that the planned growth cannot be achieved due to financing shortfalls. This requires a consistent monitoring of a sufficient equity ratio in order to secure the necessary preconditions for obtaining loans.

As in the previous year, Phoenix Solar Energy Investments AG (formerly Phönix Projekt & Service AG) manages twelve solar funds with a total volume of EUR 8,540,000 via Phönix SonnenFonds Verwaltungs GmbH. These activities may give rise to liability claims asserted by 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.

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

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

Last December Phönix Projekt & Service AG was renamed as Phoenix Solar Energy Investments AG. The reasons behind this measure are the internationalisation of the Phoenix Group and the growing demand for photovoltaic plants by domestic and international investors. The change in the name was published at the start of January 2008.

The Spanish subsidiary of Phoenix Solar AG, Phoenix Solar S.L. received orders for the construction of a total of three solar plants with a peak power output of more than 9 MWp in January. This corresponds to revenues of over EUR 40 million.

At the start of February 2008, Phoenix Solar Energy Investments AG signed a framework agreement with Trier-based Bürgerservice GmbH for the development of ground-mounted photovoltaic plants. Under this agreement, Bürgerservice GmbH undertakes to develop solar projects for Phoenix Solar Energy Investments in the region of Trier, Rhineland Palatinate / Saarland in the next two years. The planned volume of this project development contract is approximately EUR 100 million.

On 14 February 2008, the Board of Directors of Phoenix Solar AG decided, subject to approval by the Supervisory Board, to put forward a proposal to the Annual General Meeting to double the dividend paid for the financial year 2007 to EUR 0.20 per share (2006: EUR 0.10). As a reason for its dividend proposal the Board of Directors cites the successful course of business in the financial year 2007. All 6,077,000 shares of Phoenix Solar AG currently traded bear dividend. The final proposal for the payment of dividend will be released when the Annual General Meeting is convened.

At the end of February 2008, Phoenix Solar AG signed a framework agreement with the module manufacturer Signet Solar through to the year 2011 for the delivery of solar modules with a peak power output of around 50 megawatt. The agreement is for the delivery of thin-film modules of a new generation in the dimension of up to 5.7 m^2. The module producer Signet Solar is based in Döbeln, Saxony. The start of production has been planned for mid-2008.

15. GUIDANCE

In 2008, the Phoenix 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. 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 had no such programmes.

In the year 2008, we estimate the revenue growth of the Group at considerably more than EUR 300 million and the EBIT margin at around EUR 18 million. In the years ahead, we expect to make significant progress with growth.

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, approximately 100 MWp are feasible for 2008. The share in thin-film modules could rise to over 55 percent.

The proportion of sales in international markets is set to rise substantially in the coming years. The process of internationalisation is to be accelerated by stepping up the Group's power plant construction activities in southern Europe, especially in Spain. The realisation of projects in Italy and Greece is also planned. These measures are expected to generate significant impetus for our international business.

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

Sulzemoos, 20 March 2008
The Board of Directors

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

Consolidated Financial Statements 2007

for the financial year from
1 January 2007 until 31 December 2007
pursuant to IFRS

CONSOLIDATED INCOME STATEMENT

for the period from 1 January 2007 until 31 December 2007

in k€	Notes C. & D.	2007	2006
Revenues		192,938	118,968
Revenues from long-term construction contracts		67,180	26
Total revenues	**(1)**	**260,118**	**118,994**
Other operating income	(2)	1,144	1,134
Cost of materials	(3)	220,881	103,146
Personnel expenses	(4)	7,956	4,833
Depreciation and amortisation	(5) (14)	313	236
Other operating expenses	(6)	9,908	7,144
Operating result		**22,204**	**4,769**
Result from associated companies	(7)	55	17
EBIT		**22,259**	**4,786**
Financial income		414	257
Finance costs		1,101	251
Financial result	**(8)**	**– 687**	**6**
Consolidated net income before income taxes (EBT)		**21,572**	**4,792**
Income tax	(9)	7,101	1,766
Profit net of minority interest		**14,471**	**3,026**
Profit due to minority interest		10	– 2
Consolidated net income for the period		**14,481**	**3,024**
Profit / loss carryforward		4,835	2,419
Unappropriated retained earnings		**19,316**	**5,443**
Earnings per share	**(10)**		
Earnings per share (basic)		2.38	0.55
Earnings per share (diluted)		2.38	0.55

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

ASSETS

in k€	Notes C. & D.	31/12/2007	31/12/2006
Non-current assets			
Intangible assets	(11) (14)	809	396
Goodwill	(12) (14)	292	278
Property, plant and equipment	(13) (14)	1,218	811
Investments in associated companies	(15)	991	983
Other participating interests	(16)	160	10
Non-current receivables	(17)	500	450
Deferred tax assets	(9)	0	0
Other financial assets	(22)	1,361	217
Total non-current assets		**5,331**	**3,145**
Current assets			
Inventories	(18)	25,442	20,671
Prepayments	(19)	2,407	2,362
Receivables from long-term construction contracts	(20)	9,298	26
Trade receivables	(21)	18,315	16,073
Other financial assets	(22)	1,747	563
Other non-financial assets	(22)	549	0
Actual tax claims	(9)	13	0
Cash and cash equivalents	(23)	14,000	11,169
Total current assets		**71,771**	**50,864**
Total assets		**77,102**	**54,009**

LIABILITIES AND SHAREHOLDERS' EQUITY

k€	Notes C. & D.	31/12/2007	31/12/2006
Equity	(24)		
Subscribed capital		6,077	6,077
Capital reserve		20,309	20,255
Other reserves		1,568	1,568
Currency translation reserve		– 28	0
Unappropriated retained earnings		19,316	5,443
Minority interest		84	3
Total equity		**47,326**	**33,346**
Non-current liabilities and provisions			
Non-current financial liabilities	(25)	50	109
Non-current provisions	(26)	615	494
Deferred tax liabilities	(9)	3,424	155
Total non-current liabilities and provisions		**4,089**	**758**
Current liabilities and provisions			
Current financial liabilities	(25)	73	57
Liabilities from long-term construction contracts	(20)	427	0
Trade payables	(27)	13,806	13,212
Other financial liabilities	(28)	1,772	637
Other non-financial liabilities	(28)	6,592	3,178
Current provisions	(26)	822	603
Actual tax liabilities	(9)	2,195	2,218
Total current liabilities and provisions		**25,687**	**19,905**
Total liabilities and shareholders' equity		**77,102**	**54,009**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January 2007 until 31 December 2007

in k€	Subscribed capital	Capital reserve	Other reserves	Currency translation reserve	Unappro-priated retained earnings / loss	Minority interest	Total
As per 1 January 2006	**5,525**	**13,731**	**1,568**	**0**	**2,419**	**0**	**23,243**
First-time consolidation of Phoenix Solar S.L.	0	0	0	0	0	1	1
Capital increase	552	6,789	0	0	0	0	7,341
Expenses incurred by the capital increase (IAS 32.37)	0	– 265	0	0	0	0	– 265
Net income for the period 2006	0	0	0	0	3,024	2	3,026
As per 31 December 2006	**6,077**	**20,255**	**1,568**	**0**	**5,443**	**3**	**33,346**
As per 1 January 2007	**6,077**	**20,255**	**1,568**	**0**	**5,443**	**3**	**33,346**
First-time consolidation of Phoenix Solar Pte Ltd	0	0	0	0	0	91	91
Reserve for share options	0	54	0	0	0	0	54
Differences from currency translation	0	0	0	– 28	0	0	– 28
Dividend payments	0	0	0	0	– 608	0	– 608
Net income for the period 2007	0	0	0	0	14,481	– 10	14,471
As per 31 December 2007	**6,077**	**20,309**	**1,568**	**– 28**	**19,316**	**84**	**47,326**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2007 until 31 December 2007

in k€	Notes C. to E.	2007	2006
Consolidated income before tax and minority interest		21,572	4,792
Depreciation and amortisation	(5) (14)	313	236
Other non-cash income (–) and expenses (+) (incl. result from associated companies)	(30)	– 190	– 350
Result from the disposal of property, plant and equipment	(14)	1	– 7
Financial income	(8)	– 414	– 257
Finance costs	(8)	1,101	251
Sub-total		22,383	4,665
Increase / decrease in provisions (net of discounting effects and non-cash releases)	(26)	845	664
Increase / decrease in inventories	(18)	– 4,771	– 16,836
Increase / decrease in prepayments	(19)	– 45	– 2,362
Increase / decrease in receivables from long-term construction contracts	(20)	– 9,272	– 26
Increase / decrease in trade receivables (excl. non-cash transactions)	(21)	– 2,405	– 8,684
Increase / decrease in assets	(22)	– 2,985	2,182
Increase / decrease in liabilities	(27) (28)	5,860	7,236
Funds generated by operating activities		9,610	– 13,161
Interest paid	(8)	– 1,101	– 251
Income tax paid	(9)	– 3,721	– 1,495
Cash flow from operating activities		**4,788**	**– 14,907**
Receipts from associated companies	(15)	47	47
Receipts from the sale of property, plant and equipment		0	17
Purchase of intangible assets, property, plant and equipment	(14)	– 1,148	– 575
Purchase of financial assets		– 150	– 500
Payments for the acquisition of shares in the consolidated company Phoenix Solar Pte Ltd		– 286	0
Start-up costs of Phoenix Solar S.L.		0	– 5
Cash flow from investing activities		**– 1,537**	**– 1,016**
Receipt from the capital increase	(29)	0	6,926
Dividend payments	(29) (24)	– 608	0
Payments in connection with financial liabilities	(25)	– 44	– 56
Interest received	(8)	232	153
Cash flow from financing activities		**– 420**	**7,023**
Currency-induced changes in cash and cash equivalents		0	0
Consolidation-related changes in cash and cash equivalents		0	0
Net changes in cash and cash equivalents		**2,831**	**– 8,900**
Cash and cash equivalents at the start of the period	(23)	11,169	20,069
Cash and cash equivalents at the end of the period	(23)	14,000	11,169
Increase / decrease in cash and cash equivalents	(30)	**2,831**	**– 8,900**

Notes to the Consolidated Financial Statements

of Phoenix Solar Aktiengesellschaft,
Sulzemoos,
to the IFRS Consolidated Financial
Statements for the Financial Year 2007

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As per 31 December 2007, the Group of Phoenix Solar Aktiengesellschaft (hereinafter also called Phoenix Group) was made up by a group of companies consisting of five companies with 148 employees.

The parent company of the Group is Phoenix Solar Aktiengesellschaft (hereinafter called Phoenix Solar AG) with its principal place of business in Hirschbergstraße 8 in 85254 Sulzemoos, Germany; the company is registered with the District Court of Munich under the number HRB 129117. Other than in the previous year, and in accordance with a resolution passed by the regular Annual General Meeting of the former Phönix SonnenStrom Aktiengesellschaft on 25 May 2007, the parent company of the Group now goes by the new name of Phoenix Solar Aktiengesellschaft.

The business purpose of the parent company is the development, production, sale and distribution, alongside 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 are active in the development of photovoltaic projects (Phoenix Solar Energy Investments AG, formerly Phönix Projekt & Service AG) and in the role of general partner under German law (Phönix SonnenFonds Verwaltungs GmbH). The Spanish subsidiary (Phoenix Solar S.L., formerly Phoenix Energía Solar S.L.) was founded to develop and sell photovoltaic systems in the Spanish and Portuguese markets. In the reporting year, Phoenix Solar AG acquired 75 percent of the shares in Phoenix Solar Pte Ltd in Singapore to cover the Asian market for the development and sale of photovoltaic systems.

With effect from 7 August 2007, the subsidiary Phoenix Solar Energy Investments AG acquired a 50-percent stake at a purchase price of kEUR 150 in the limited liability capital of SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, headquartered in Grünwald, Germany. The cost of purchase corresponds to the mandatory deposit. The purpose of the company is the purchase, letting, realisation and administration of property and movables and the construction and management of buildings of all types, in particular photovoltaic plants in the country and abroad, as well as the entering into, purchasing and founding of participations for this purpose. The whole purchase price was fully paid from cash funds. In the absence of a divergent contractual provision under company law, the general partner has no possibility of influencing the financial or business policy of the company whatsoever, with the result that there is no controlling influence. The shares have been disclosed under Other participating interests.

(2) INFORMATION ON ACCOUNTING STANDARDS

The shares of Phoenix Solar AG are traded on the official market in the Prime Standard segment of the Frankfurt Stock Exchange, thereby entailing the preparation of the consolidated financial statements under international accounting standards in accordance with Article 4 of EC Directive no. 1606 /2002 of the European Parliament and of the Council of 19 July 2002.

The Phoenix Group therefore prepares its financial statements in accordance with the standards prescribed under the applicable International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) which were approved by the International Accounting Standards Board (IASB), London. All interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC) valid for the financial year 2007 and the earlier interpretations of the Standing Interpretations Committee (SIC), as well as the additional provisions under Section 315a German Commercial Code (HGB) have been adhered to in the consolidated financial statements presented in this report. Accordingly, the financial statements consist of the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the Notes to the Consolidated Financial Statements and the Management Report on the Group. The consolidated financial statements were prepared on the basis of the purchase method, to the exception of the attributable fair value model in respect of measurement of derivative financial instruments.

The consolidated financial statements have been prepared in euros, which is the reporting currency of the Group. Nonetheless, the balance sheet items of the respective companies are always calculated in the currency which is used in the primary economic environment of operations (functional currency). Transactions in foreign currencies are converted from the foreign currency to the functional currency at the spot rate valid on the respective day of the transaction. Any differences are recorded through profit and loss.

If a measurement unit other than the euro is used, kEUR (k€) as thousands of euros for instance, this will be indicated by the respective denomination.

The preparation of the consolidated financial statements in accordance with the standards prescribed under IASB 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 income and expenses of the financial year. Actual amounts may diverge from these estimates. The estimates and assumptions of management affect in particular the ascertaining of uniform regulations governing recognition and measurement in the consolidated financial statements. Estimates and assumptions are reviewed and adjusted on an ongoing basis, in as much as empirical experience, other factors and objectively comprehensible estimates of future developments necessitate a reassessment of individual issues by management. The effects of changes in accounting estimates are taken account of prospectively through profit and loss in the period when the change occurs.

Material estimates and assumptions which may be of special significance for the assets, financial position and results of operations of the Group are, in particular, estimates of the degree of completion in line with the percentage-of-completion method, the ease with which modules kept as part of the inventories can be sold, income taxes, the determination of the necessity of impairment, the valuation of share option plans, the measurement of financial instruments, the classification of leasing agreements as well as, on the one hand, the recognition and, on the other, the measurement of provisions set up for the respective contingent commitments.

a) New standards, adjustments and interpretations applicable in 2007

IFRS 7 "Financial Instruments: Disclosures", as well as the corresponding changes in IAS 1

"Presentation of Financial Statements – Disclosure of Equity" has introduced new disclosures required for financial instruments. The information arising from this standard has no effect on recognition and the measurement of financial instruments to date within the Group nor on associated information on taxation, receivables and other assets.

IFRIC 8, "Scope of Application of IFRS 2", specifies the scope of application of IFRS 2. Under this standard, IFRS 2 is also applicable to transactions where the entity drawing up the financial statements receives equity instruments of the company in consideration of goods or services even though some or all of the goods or services received are not specifically identifiable. This interpretation has no effect on the consolidated financial statements.

IFRIC 10, "Interim Financial Reporting and Impairment", is concerned with the requirements under IAS 34 and the recording of impairment of goodwill under IAS 36 and a number of assets cited under IAS 39, as well as the effects of this connection on future interim and annual financial statements. This interpretation has had no effect on the consolidated financial statements.

b) Early application of standards and interpretations
The application of IAS 23 (new version), "Borrowing Costs", will be mandatory for the first time as from 1 January 2009. The change from the previous version determines that the currently still permissible benchmark method, i.e. the direct recording of borrowing costs as an expense in respect of qualifying assets, may no longer be applied in future. This was applied for the first time in the financial year 2007 and, owing to the project business, has had a positive effect on the result.

c) Applicable standards, changes and interpretations with no effect on the Group
The standards, changes and interpretations below were published in the past by IASB and their application was mandatory as from the financial year starting 1 January 2007 and subsequent financial years; these standards do not, however, have any impact on the consolidated financial statements of the Phoenix Group.

They are as follows:
- IFRS 4, "Insurance Contracts";
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Countries";
- IFRIC 9 "Reassessment of Embedded Derivatives".

d) Standards, changes and interpretations the application of which is neither mandatory nor which must be applied at an earlier date
The following standards, changes and interpretations had been published by the balance sheet date and are to be applied as from 1 January 2008 at the earliest:

The changes under the Business Combination Projects II were approved by the IASB at the end of the year. IFRS 3 "Business Combinations", and the related norm under IAS 27, "Consolidated and Separate Financial Statements under IFRS" have therefore been adjusted accordingly. The Group has waived early application as the changes have not yet passed through the endorsement procedure of the EU. The application of this standard is mandatory for the first time as from 30 June 2009 and thereafter.

With Directive (EC) no. 1347/2007, the EU Commission adopted IFRS 8 "Operating Segments" which replaces IAS 14. The EU parliament had approved the adoption of the standard at an earlier date.

IFRS 8 provides in particular for the application of the "management approach" in reporting on the business development of segments. The main features of the standard are:

- Operating segments are parts of a company whose operating results are monitored regularly by a central decision maker ("chief operating decision maker") and which form the basis for decision making in respect of resource allocation and performance control as well as for individualised financial information.
- The determination of segment information must accord with internal reporting to the chief operating decision maker.
- Segments integrated vertically are also operating segments if they are managed as such.

IFRS 8 must be applied for the first time to financial years which begin with 1 January 2009 and thereafter. The Phoenix Group plans to apply this standard as from 1 January 2009. This will incur changes and supplementations to segment reporting. At the Phoenix Group, this is likely to have the effect of the segment report being supplemented by the Investor segment. This is currently included in the Power Plant segment. Other consequences are not reliably discernible from today's standpoint as the effects of the organisational restructuring measures implemented are currently not foreseeable.

e) Interpretations which are not mandatory nor of relevance for the Group

The following interpretations had been published by the IFRIC by the reporting date, with mandatory application for the financial years starting on 1 January 2008 at the earliest. Moreover, the content of these interpretations was not relevant for the Phoenix Group on the reporting date.

- IFRIC 11 "IFRS 2 – Group and Treasury Transactions" comprises provisions for the capitalisation of transactions with group and treasury shares.
- IFRIC 12 "Service Concession Arrangements", (applicable as from 1 January 2008) applies to service concession arrangements under which a government or another institution awards contracts to private operators for public-sector services, such as roadworks, supply of energy, prison or hospital operations. IFRIC 12 has no relevance for the Phoenix Group as the company does not provide any public-sector services.
- IFRIC 13 "Customer Loyalty Programmes" (applicable as from 1 January 2008) is dedicated to the accounting of companies which allocate credits ("loyalty points" or travel miles) to customers who are awarded them through the purchase of goods or other services. The standard describes in detail how these companies should account for their obligation to provide goods or services free of charge or at a reduced rate ("premiums") when customers redeem the points. IFRIC 13 has no significance for the Phoenix Group as there is no such premium systems for customers.

- IFRIC 14 "Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction" (applicable as from 1 January 2008) provides guidance above all on when a minimum funding requirement can result in a liability or can influence the availability of an economic benefit. Basically, a minimum funding requirement has no influence on accounting under IAS 19. If the contribution is no longer available to the company after payment, this may result in a minimum funding requirement (liability) or affect the availability of economic benefits. As the Phoenix Group does not have a defined benefit plan these specific provisions are of no relevance to the Group.

(3) CHANGES IN ACCOUNTING PRINCIPLES AND VALUATION METHODS

As against the financial statements as at 31 December 2006, there have been the following significant changes to the accounting, valuation and consolidation methods:

To improve the presentation of the financial statements and to provide more reliable and relevant information for the recipients of the financial statements within the meaning of IAS 8.14 (b), inventories have no longer been valued according to the Fifo method but with the weighted average method since 1 January 2007 in the IT system. The adjustment of the previous year's figures required under IFRS was not carried out as the differences in the valuation of inventories of Phoenix Solar AG arising from the use of the weighted average method in preference to the Fifo method are of minor significance in terms of their impact on the net worth, financial position and results of operations of the previous year and the current financial year. In future, management has assumed that retaining the Fifo method would not have been appropriate.

Owing to the expected change in IAS 23, borrowing costs which cannot be directly allocated to purchasing, construction or manufacturing of a qualifying asset are no longer included as an expense but capitalised as part of the purchasing or manufacturing costs of this asset under the alternative method permitted. The date for the change to the accounting method was intentionally selected by management for the current year as, in relation to the portfolio of project-related qualifying assets of the previous year (kEUR 26), the adjustment effects are minor, both in absolute and relative terms. IAS 23 amended by the IASB has still not gone through the EU endorsement procedure.

(4) REPORTING DATE

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

(5) DEADLINE FOR RELEASE

The financial statements are to be released on 24 April 2008. Approval will be given by the Board of Directors.

(6) PRINCIPLES OF CONSOLIDATION

GROUP OF CONSOLIDATED COMPANIES

In accordance with IAS 27, all subsidiaries are included in the consolidated financial statements of Phoenix Solar AG. In comparison with 31 December 2006, the group of consolidated companies of the Phoenix 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
Phoenix Solar Energy Investments Aktiengesellschaft	Hirschbergstraße 8, Sulzemoos, Germany	100 %	01/01/ – 31/12/2007
Phönix SonnenFonds Verwaltungs GmbH	Hirschbergstraße 8, Sulzemoos, Germany	100 %	01/01/ – 31/12/2007
Phoenix Solar S.L.	C / Isla Graziosa no. 1, 28703 San Sebastián de los Reyes, Spain	95 %	01/01/ – 31/12/2007
Phoenix Solar Pte Ltd	209 Syed Alwi Road SG-207742 Singapore	75 %	01/02/ – 31/12/2007

The first-time consolidation of the companies now included was carried out on the respective dates of acquisition, as follows: 15 March 2002 (Phoenix Solar Energy Investments Aktiengesellschaft), 12 July 2002 (Phönix SonnenFonds Verwaltungs GmbH), 26 April 2006 (Phoenix Solar S.L.) and on 1 February 2007 (Phoenix Solar Pte Ltd).

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

Name	Headquarters	Amount of participation	Duration of participation
Renewable Energies Development 2002 (RED 2002) S.r.l.	Rome, Italy	49.0 %	01/01/ – 31/12/2007
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos	31.2 %	01/01/ – 31/12/2007

For reasons of materiality, a limited partnership in which Phoenix Solar Energy Investments 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 participating interests.

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

Information on the non-consolidated companies:

1. Non-consolidated pool companies

in k€	Total assets 31/12/2007 (2006) (HGB)	Total liabilities 31/12/2007 (2006) (HGB)	Income 2007 (2006) (HGB)	Result for the period 2007 (2006) (HGB)
Phönix SonnenFonds GmbH & Co. KG D4	0.6 (0.6)	0.6 (0.6)	0.0 (0.0)	0.0 (0.0)

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

in k€	Total assets 31/12/2007 (HGB)	Total liabilities 31/12/2007 (HGB)	Income 2007 (HGB)	Result for the period 2007 (HGB)
Phönix SonnenFonds GmbH & Co. KG A1/2 West	576	130	92	30
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	570	124	96	34
Phönix SonnenFonds GmbH & Co. KG A3/4 West	572	126	96	34
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	564	118	94	31
Phönix SonnenFonds GmbH & Co. KG A5/6 West	561	115	95	31
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	553	107	93	31

in k€	Total assets 31/12/2006 (HGB)	Total liabilities 31/12/2006 (HGB)	Income 2006 (HGB)	Result for the period 2006 (HGB)
Phönix SonnenFonds GmbH & Co. KG A1/2 West	578	132	93	25
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	568	122	92	24
Phönix SonnenFonds GmbH & Co. KG A3/4 West	569	123	92	24
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	564	118	90	22
Phönix SonnenFonds GmbH & Co. KG A5/6 West	561	115	90	23
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	553	107	90	23

In application of IAS 32.18b) the capital accounts of the shareholders of the limited partnership companies have been included in the total liabilities. For purposes of presentation, the limited liability capital and the respective premiums were recorded as equity capital unlike the previous year's disclosure.

The 50-percent stake held indirectly in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG via Phoenix Solar Energy Investments AG is not included in the consolidated financial statements, neither as a joint venture nor as an associated company. In the absence of divergent provisions under company law, the general partner has no possibility of influencing the financial and business policy of the company whatsoever. The shares have been disclosed under other participations.

PRINCIPLES OF CONSOLIDATION

Phoenix Solar AG is obliged to draw up consolidated financial statements as at 31 December 2007. All rules of IAS and IFRS valid on 31 December 2007 were adhered to in the consolidated financial statements presented in this report.

a) Subsidiaries

Subsidiaries included in the group of consolidated companies are those over which the Group exerts a controlling influence on the financial and business policies, which is the case with overall voting rights of more than 50 percent. The existence and impact of potential voting rights which are currently exercised or can be converted are taken account of in the assessment of controlling interests within the meaning of IAS 27.

The purchase method was applied to acquired companies (IAS 22 old resp. IFRS 3). The purchase cost of acquiring a company is measured at the fair value of the assets transferred, the equity capital instruments issued and the received or assumed liabilities at the time when control passes. Moreover, all costs directly allocable to the company acquisition are added to the cost of purchase as incidental purchase costs. For the purposes of first-time recognition, purchased and identifiable assets, liabilities and contingent liabilities are recorded at fair value at the time of purchase. If the purchase cost exceeds the proportionate, restated net assets, the difference is recorded as goodwill in the consolidated financial statements; in rare cases when the purchase costs are lower than the proportionate, restated net assets, the difference is reported immediately as income in the income statement.

Companies acquired during the financial year 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 Phoenix Solar Energy Investments 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 purchase and pro rata equity of the companies purchased were disclosed as goodwill. There were no differences on the liabilities side.

In order to ensure uniform accounting within the Group, the recognition and valuation methods of the individual subsidiaries were adjusted to accord with those of the Group.

Consolidation of liabilities was carried out pursuant to IAS 27. In this process, the receivables 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 intragroup expenses and income were set off against each other.

Gains or losses from intragroup transactions which were included in the book value of assets were fully eliminated pursuant to IAS 27. If there was a loss from intragroup transactions, this was deemed an indication of a possible need for impairment.

b) First-time consolidated companies

With effect from 1 February 2007, Phoenix Solar AG purchased a participation of 75 percent in Phoenix Solar Pte Ltd, a company founded in October 2006 and headquartered in Singapore. The remaining 25 percent are distributed among three other shareholders. The purchase costs of the participation equal the purchase price and came to USD 375,000 (EUR 289,485.88). As part of the acquisition, kEUR 3 in cash funds were taken over. In accordance with IAS 27, the company was fully consolidated in the consolidated financial statements of Phoenix Solar AG. The purchase price was fully funded (IAS 7.40). Assets worth a converted amount of kEUR 35 and liabilities worth a converted amount of kEUR 46 were taken over. There were no hidden reserves or encumbrances in the asset and liability items, which means that the fair value recognised corresponded to the book value and the difference of EUR 13,981.10 (kUSD 18) was capitalised as goodwill. This difference related to losses accrued since the founding of the company (31 October 2006) up until the time of first consolidation. Since the date of acquisition, Phoenix Solar Pte Ltd has sustained a loss of a converted amount of kEUR 292 (kUSD 404) which is included in the result for the period.

The contribution of Phoenix Solar Pte Ltd to consolidated revenues since the date of purchase comes to a converted amount of kEUR 125 (kUSD 174). Assuming that the business combination had taken place at the start of the financial year, the contribution to revenues would have posted kEUR 127 (kUSD 176). The aforementioned case being assumed, the loss of Phoenix Solar Pte Ltd would have risen to a converted kEUR 309 (kUSD 428).

c) Associated companies

Associated companies are participating interests over which the Group can exert a considerable influence without, however, having control. There is customarily rebuttable presumption that there is a significant influence if the holding in the capital or of voting rights comes to between 20 and 50 percent. Participations in associated companies are accounted for using the at-equity method where the first-time recording of an associated company is carried out at cost of purchase. If the purchase cost exceeds the proportionate equity capital in the at-equity holding at the time of acquisition, goodwill is recognised accordingly and disclosed separately in subsequent periods, if necessary reduced by impairment losses. In the following periods, accumulated equity movements are charged proportionately to the book value of the participation.

The shares of the Group in the profit or loss of an associated company are recorded through profit and loss in the consolidated income statement and disclosed separately. If the proportionate losses to be assumed exceed the cost of purchase and unsecured receivables in relation to the associated company, no further impairment is recorded unless additional obligations of the associated company are assumed or payments made in favour of the associated company.

Interim results which arise between the Group and the associated company are always eliminated in proportion to the amount of the holding. For the purpose of reporting, the uniform methods of recognition and / or measurement of the Group are applied to the financial statements of the associated company.

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.

The proportionate result from the at-equity valuation attributable to the Phoenix Group stood at EUR 32,337.23 (2006: EUR 14,656.09) in the financial year 2007. This amount is disclosed separately in the 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 466,400.91 as per 31 December 2007 (2006: EUR 481,347.86).

In addition, the Italian company Renewable Energies Development 2002 (RED 2002) S.r.l. with its principal place of business in Rome, Italy, was also recognised at equity in accordance with IAS 28.

The result from the at-equity valuation attributable to the Phoenix Group under IFRS came to EUR 22,532.14 (2006: EUR 1,904.68) and is disclosed in the consolidated income statement under Result from associated companies. 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 524,436.82 as per 31 December 2007 (2006: EUR 501,904.68).

B. ACCOUNTING POLICIES AND VALUATION METHODS

(1) RECOGNITION OF PROFIT AND CONSTRUCTION CONTRACTS

RECOGNITION OF PROFIT

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. Service revenues are realised when the service is rendered. Sales revenues are disclosed after deduction of returns, rebates and discounts and correspond to the fair value of payments received or receivables recorded.

Interest income is accrued, taking account of the outstanding loan amount and the applicable interest rate. Dividend is received with the arising of a legal claim.

CONSTRUCTION CONTRACTS

In principle, work in progress is customer orders which have not been fully processed. Under IAS 11, construction contracts are to be valued according to the percentage-of-completion method (PoC 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 contracts is also recognised as profit according to progress made. Revenue is calculated for each contract according to the percentage of the internal and external expenses incurred by the reporting date of the estimated total expense (cost-to-cost method).

In cases where the contract revenue cannot be reliably estimated (e.g. prepayments of contracts expected), they are capitalised in the amount of the costs in as much as coverage of these costs by the value of the contract can be expected (zero profit method). The contracts are disclosed under Receivables or liabilities from long-term construction contracts. In as much as the accumulated payments (contract costs incurred and gains disclosed) exceed advance payments in the individual case, the construction contracts are disclosed on the assets side under Receivables from long-term construction contracts. If, after deduction of the advance payments, the balance is negative, this is disclosed under Liabilities from long-term construction contracts. Losses anticipated from contracts are recorded in their full amount; they are calculated taking account of discernible risk.

Borrowings which can be directly allocated to the purchase or manufacturing of individual assets are capitalised as incidental purchase costs or as manufacturing costs. In the context of applying the PoC method, the respective interest as a component of the manufacturing costs has reduced profit from the construction contracts of individual customers.

(2) INDIVIDUAL ITEMS OF THE BALANCE SHEET

INTANGIBLE ASSETS

Intangible assets acquired against payment are capitalised at cost 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 capitalised if the expenses can be allocated to the development phase of the self-created intangible asset. The costs must be clearly allocable to a particular development likely to give rise to an economic benefit in the future and the life of such benefit is longer than one financial year. Moreover, the following conditions must be fulfilled: that, along with the intention to complete the intangible asset, its technical feasibility and the relevant resources must be given. All directly allocable costs of development count as manufacturing costs. Expenses of development once recorded are no longer capitalised. Up until the time of completion, the capitalised development costs are subject to an annual impairment test; as soon as they can be taken into operation, self-created intangible assets are amortised on scheduled basis over their useful economic lives.

GOODWILL

Goodwill is the surplus of the purchase costs of acquiring a company in relation to the share acquired in identifiable assets and liabilities at fair value on the date of acquisition. Under the application of IFRS 3 in conjunction with IAS 38, goodwill is not amortised on a scheduled straight-line basis. 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. For the purpose of an impairment test, goodwill is distributed among the cash generating units (CGUs), with these units corresponding at minimum to the segments.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are valued at cost minus scheduled straight-line depreciation and impairment pursuant to IAS 16. The length of depreciation depends on the probable useful life. As from the date of addition, assets classified as property, plant and equipment are written down on a pro rata temporis basis. The residual values, the useful lives and the depreciation methods applied to the assets are reviewed at minimum on each annual reporting date; if expectations diverge from former estimates, the relevant adjustments pursuant to IAS 8 are capitalised as adjustments of estimates. The purchase price, the directly allocable costs of transporting the asset to the respective location and of bringing the asset into working order required and intended by management, as well as the estimated costs for the decommissioning of the asset and of returning the location to its original state are deemed costs of purchase or manufacturing. If an asset qualifying as property, plant and equipment consists of several components with different useful lives, the individual major components are written down over their individual useful lives. Maintenance and repair costs are reported as expenses as and when they occur. Borrowing costs are capitalised in as much as they can be allocated individually to the purchase of a qualified asset. In the event of the disposal of property, plant and equipment, or if no further economic benefit can be derived from its use, or its disposal can be anticipated, the book value of the asset will be charged off. The gain or loss from the charging off of such an asset is the difference between the net realisable value and the book value of the asset and is recorded at the time when it is charged off under Other operating income or Other operating expenses.

IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

If there is evidence that the book value of intangible assets or property, plant and equipment may be impaired, an impairment test is carried out. In the event, the recoverable amount of the respective asset is calculated in order to ascertain the scope of the impairment which may be required. The recoverable amount corresponds to the fair value of the asset minus costs to sell or the value in use; the higher of the two amounts is decisive. The value in use is the net present value of the expected cash flow. If a recoverable amount cannot be calculated for the individual asset, the recoverable amount of the smallest identifiable group of assets (cash generating unit or CGU) to which the respective asset can be allocated is ascertained. If the recoverable amount of an asset is lower than its book value, a value adjustment of the asset is immediately carried out through profit and loss. If, at a later point in time after the impairment has been carried out, the recoverable amount of an asset or a CGU is greater, there will be an impairment reversal up to the maximum of the carrying amounts which would have been ascertained had not the impairment been incurred. The impairment reversal is carried out through profit and loss.

LEASING

Leasing agreements are classified as finance leasing if all the main risks and rewards associated with the ownership of the object leased have passed to the lessor. All other leasing transactions are so-called operate leasing.

The rental and leasing payments made by Phoenix in the context of operate leasing are recorded on a straight-line basis over the term of the agreement directly as expenses in the income statement.

Phoenix companies lease buildings, company cars and office furniture and equipment for their own use (procurement leasing). These rental and leasing agreements are exclusively operate leasings and have terms of one and 17 years in respect of buildings. Terms of between one and four years have been fixed for company cars and photocopying machines.

OTHER PARTICIPATING INTERESTS

Other participating interests comprise financial investments in equity capital instruments for which there is no active market with price quotations and the attributable fair value of which cannot be reliably estimated. Other participating interests are valued at the cost of purchase plus incidental purchase costs.

INVENTORIES

Upon initial recognition, inventories are capitalised at their costs of purchase/costs of manufacturing pursuant to IAS 2, plus incidental purchase costs and minus reductions in the purchase price. The costs of manufacturing comprises all directly allocable costs. The costs of purchase of the assets disclosed under goods were measured at weighted average prices.

In subsequent accounts, items with lower fungibility are written down at their lower net realisable value if this is lower than the costs of purchase/manufacturing.

Borrowings, which can be directly allocated to the purchase or manufacturing of individual assets, are capitalised as incidental purchase costs.

PREPAYMENTS

Prepayments are measured as financial assets at fair value.

ORIGINAL FINANCIAL INSTRUMENTS

Original financial instruments, i.e. non-derivative financial instruments, include trade receivables in particular, other receivables, lending, financial assets, securities and cash and cash equivalents, as well as financial liabilities and trade payables.

Upon initial recognition, original financial instruments are recorded at fair value. In subsequent periods, the original financial instruments are either measured at fair value or at amortised cost, depending on the category to which they belong. If no specific market value is indicated in the Notes to the Consolidated Financial Statements, the market value is the same as the book value.

A distinction is to be made between the following categories:

- Assets held for trading are measured at fair value. If there is no market value, the fair value is calculated by using adequate measurement procedures, e.g. the discounted cash flow method. In the Phoenix Group, these original financial instruments arise only in connection with hedging transactions, i.e. derivatives.
- Financial investments held to maturity are valued at amortised cost. There are generally no such instruments in the Phoenix Group.
- Loans and receivables which are not held for trading purposes are always capitalised at amortised cost. In the Phoenix Group, this category primarily includes receivables due from customers, other receivables and loans granted. Receivables which are non- or low-interest bearing with terms of more than one year are always discounted. Individual value adjustments are made in full for all doubtful receivables. The general credit risk is taken account of through valuation allowances set up for the receivables portfolio which are fundamentally based on empirical experience.

- Assets available for sale are always measured at fair value. In the Phoenix Group, this category mainly comprises assets under Other participating interests. The difference between the cost of purchase and fair value is treated without effect on income and recorded taking account of deferred taxes in equity from profit and loss not realised. If the fair value is permanently or significantly below the book value, impairment is recorded through profit and loss. Other participating interests which do not have a market price quotation and for which fair value cannot be reliably determined are valued at cost. If there is evidence of a need for impairment, an impairment test is carried out and, if necessary, impairment loss recorded through profit and loss.
- Upon initial recognition, financial liabilities are valued at the cost of purchase. In subsequent valuations, liabilities, to the exception of derivative financial instruments, are valued at cost which generally corresponds to the repayment amount.

DERIVATIVE FINANCIAL INSTRUMENTS

The Phoenix Group uses a number of different derivative financial instruments to hedge existing or planned underlying transactions against currency, interest rate and market price risks. The most important derivative financial instruments used in the Phoenix Group are forward exchange transactions, currency swaps and currency options. Financial derivative instruments are neither held nor issued for speculation purposes.

Pursuant to IAS 39, it is mandatory that derivative financial instruments which are not part of an effective hedging relationship are classified as "held for trading" and recorded at fair value through profit and loss. The fair value of traded derivative financial instruments corresponds to the market value. The Phoenix Group only uses traded derivative financial instruments; if, however, it is not possible to ascertain a market price and there are therefore no market prices available, fair value is calculated using recognised financial mathematical models taking account of the respective exchange rates, interest rates and credit standing of the contractual partners. Middle rates are used in calculations. There is currently no hedge accounting at the Phoenix Group. Accordingly, changes in the fair value of derivative financial instruments are recorded immediately through profit and loss.

The fair value of forward exchange transactions and currency swaps is calculated on the basis of the difference between the forward exchange rate on the reporting date with same maturity and the contractual forward exchange rate. The attributable fair value of currency options is calculated using recognised option pricing models. Important factors of influence are the residual term of the option, the risk-free rate, the fixing level as well as the actual exchange rate level and the volatility.

Forward exchange transactions with a positive fair value are disclosed under Other current financial assets and those with a negative fair value under Other current financial liabilities.

Currency call options are recorded under Other financial assets provided they have a positive value.

FINANCIAL ASSETS

Upon initial recognition, financial assets are measured at fair value. In this process, the directly allocable transaction costs upon purchase are taken account of in respect of all financial assets which are subsequently not measured at fair value through profit and loss. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these prices are not directly available, they are calculated using recognised valuation models incorporating current market parameters.

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 also be included on the liabilities side.

a) Receivables
Upon initial recognition, receivables are always measured at fair value.

Provisions for losses on individual accounts are formed if there are receivables where there is a high probability of default. In addition, the credit, interest rate and discounting risk is also taken into account in the valuation.

A discounting of non-current receivables was carried out, if required, on the basis of the effective interest rate method. A risk-adjusted interest rate customary in the market was used as a discount rate.

b) Other assets
Other assets comprise, among others, pre-tax receivables and other tax receivables, receivables due from employees and deferred items. Other assets are valued at their carrying costs. Any value adjustments are oriented towards actual default risk.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise demand deposits, cash in hand and deposits on current accounts.

The development of liquid funds which form the cash funds pursuant to IAS 7 are disclosed in the cash flow statement.

SHARE-BASED PAYMENT

Accounting for share-based payments is carried out pursuant to IFRS 2, i.e. standards governing share-based remuneration regulations, are always valued at the fair value of the countervalue received. All transactions with employees in which equity instruments of the company are granted for goods or services received are subject to the standards governing share-based payments. As the fair value of work supplied cannot generally be ascertained, the fair value of the equity instrument given in exchange is used. The Phoenix Group applies the regulations on equity-settled share-based payment transactions. Accordingly, the grant date of the equity capital instrument is a determinant of fair value, on the one hand and, on the other, exclusively the share-related targets. The personnel expenses incurred through these transactions are subject to a blocking period or vesting period.

All share option plans are described in Note (37).

MINORITY INTEREST

In accordance with IAS 27, minority interest in the consolidated balance sheet is shown as a separate position in equity. Proportionate losses are charged to the respective minority interest only up to the maximum amount carried on the liabilities side. Any excess losses reduce profit shares of minority interest subsequently credited.

PROVISIONS

Other provisions are recognised pursuant 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. The valuation of individual provisions is carried out on the basis of the best possible estimate and, in the case of layered provisions, on the basis of expected value.

Specific warranty provisions are set up for known loss 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 anticipated values.

Based on the best possible estimate, other provisions were formed for all identifiable risks and uncertain obligations in the amount of their probable occurrence. Non-current provisions are discounted at a market-oriented rate.

FINANCIAL LIABILITIES

Upon their initial recognition, financial liabilities are measured at fair value which generally corresponds to the repayment amount. Transaction costs directly allocable to the acquisition are also recognised for all financial liabilities which are subsequently not measured at fair value through profit and loss.

Trade payables, as well as other original financial liabilities, are always measured at cost using the effective interest rate method. In the case of financial liabilities, the Group has not yet used the option of designating them upon their initial recognition as financial liabilities at fair value through profit and loss.

LIABILITIES

Liabilities are always recognised at fair value which, in most cases, corresponds to the repayment amount. If liabilities have a term of more than one year, the value is recognised accordingly using the effective interest rate method.

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

CONTINGENT LIABILITIES

Contingent liabilities are, on the one hand, potential obligations, the existence of which must first be affirmed through the occurrence of one or several uncertain future events which cannot be fully influenced. On the other, they also comprise obligations which are, however, unlikely to lead to an outflow of assets or such outflow of assets cannot be reliably quantified. Under IAS 37, contingent liabilities are not to be recorded in the balance sheet.

INCOME TAX

a) Actual tax

The actual tax assessment base is calculated on the basis of the respective tax objects and valued at the tax rate valid on the respective reporting date. Disclosure is carried out under the Actual tax liabilities or Tax claims items.

Any changes to actual tax liabilities or claims are recorded through profit and loss.

Actual tax claims and actual tax liabilities are only netted off if one of the Phoenix companies has an enforceable right and the intent of offsetting.

b) Deferred taxes

IAS 12 requires the application of the balance-sheet oriented liabilities method in the calculation of deferred taxes. Under this method, deferred tax assets and / or liabilities are recognised for temporary differences between the carrying amount of an asset or liability and its tax base, which reverse in the future, releasing income tax-related effects, for consolidation transactions with concurrent effects on net income and for tax loss carryforwards.

Deferred tax assets and tax liabilities are measured using the tax rates which are expected for the realisation of an asset or the fulfilment of a liability. In this process, only the tax rates valid on or announced for the balance sheet date are applied.

Deferred tax assets and deferred tax liabilities are not discounted.

Deferred taxes are recorded as income or expense and included in the result for the period; the following constitute an exception:

– a transaction or event which is directly recorded in equity;
– a business combination.

If the tax relates to items which were directly credited or charged to equity, tax is credited or debited in equity also without effect on income.

If tax from a business combination arises in the form of a company acquisition, it is recognised as an identifiable asset or liability on the day of acquisition in accordance with IFRS 3.

Actual tax claims and actual tax liabilities are only netted off if one of the Phoenix companies has an enforceable right to offsetting and this relates to income tax levied by the same tax authorities for the same tax object and there is maturity matching.

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

(3) APPROPRIATION OF PROFIT

In as much as, after the reporting date, the Phoenix Group releases its proposals for the appropriation of profit or specific dividend to the general public, this dividend is not recognised as a liability on the reporting date as the event itself is not one which has to be taken account of.

(4) CURRENCY TRANSLATION

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, are converted into euros as per the reporting date. Price gains and losses are recorded in the income statement. Non-monetary items (at Phoenix mainly inventories and prepayments made on inventories) which are valued at historical cost, are converted at the exchange rate valid on the day of the transaction in accordance with IAS 21.23b).

The financial statements of the subsidiary Phoenix Solar Pte Ltd are converted in accordance with the concept of functional currency. The functional currency of this company is USD so that, for the purpose of inclusion in the consolidated financial statements, translation into euros was carried out. The translation of the balance sheet items was carried out with the exception of equity at the exchange rate valid on the reporting date, and that of the items of the income statement at the annual average rate. The average exchange rate for the year is calculated by weighting the exchange rates at the respective month’s end. Equity is carried at historic rate. The currency difference arising from the translation of equity is treated without effect on income and recorded under Currency translation reserve and disclosed separately.

Exchange rates applied to the consolidated financial statements:

Currency pair	Rate on reporting date	Average rate
USD / EUR	1.4721	1.3874
JPY / EUR	164.93	162.49

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

(1) TOTAL REVENUES

Revenues and development by segment are summarised in the overview included in the Segment report (see Note (31)).

The revenues includes revenue from work in progress from long-term construction contracts on the reporting date (pursuant to IAS 11) worth kEUR 67.180 (2006: kEUR 26).

The revenues, including revenue from long-term construction contracts, is allocated between the segments as follows:

Revenues in k€	2007	2006
Components & Systems	129,264	62,485
Power Plants	63,535	56,420
Increase / decrease in revenues from long-term construction contracts	67,180	26
Other	139	63
Total	**260,118**	**118,994**

As the contributions by Phoenix Solar Energy Investments Aktiengesellschaft were allocated for the first time to the Power Plant segment, the corresponding third-party sales of 2006 of kEUR 18 were reposted from the Other position.

(2) OTHER OPERATING INCOME

Other operating income in k€	2007	2006
Valuation of option right	0	160
Proceeds from damage compensation	30	197
Charging on of costs	0	72
Non-monetary compensation	88	82
Income from the release of provisions and liabilities	431	281
Income from subsidy payments for EU projects	0	24
Electricity income	3	83
Income from the release of provisions	3	6
Income from price gains	347	144
Other	242	85
Total	**1,144**	**1,134**

Electricity income relates to compensation for feeding into the grid.

The income from price gains relates to income from the translation of transactions concluded in a foreign currency into the reporting currency.

(3) COST OF MATERIALS

The cost of materials was reduced by discounts, rebates and other curtailments and is made up of goods and services purchased as shown below:

Cost of materials in k€	2007	2006
Expenses for goods purchased	182,663	87,413
Expenses for services purchased	38,218	15,733
Total	**220,881**	**103,146**

(4) PERSONNEL EXPENSES

Personnel expenses break down as follows:

Personnel expenses in k€	2007	2006
Wages and salaries	6,793	4,114
Social security contributions and expenses for old age provisioning and for support	1,163	719
Total	**7,956**	**4,833**

Expenses for old-age provisions came to kEUR 3 (2006: kEUR 3) and result exclusively from insurances arranged directly with insurance companies for employees. There are no pension commitments within the Group. Share options were issued in the reporting year (see Note (37)).

The average number of employees in the financial year came to:

Employees	2007	2006
The Board of Directors (parent company)	4	3
Salaried employees (full and part time)	96	72
Temporary staff	25	15
Total	**125**	**90**

(5) DEPRECIATION AND AMORTISATION

Depreciation and amortisation on intangible assets and property, plant and equipment came to kEUR 313 in the year under review (2006: kEUR 236). For a detailed overview, see the Analysis of fixed assets in Note (14).

(6) OTHER OPERATING EXPENSES

Other operating expenses in k€	2007	2006
Administration costs	4,118	2,597
Selling costs	2,881	1,981
Operating costs	2,643	2,126
Other costs	266	440
Total	**9,908**	**7,144**

Expenses from operate leasing came to kEUR 348 (2006: kEUR 95).

Costs of kEUR 412 incurred in connection with the change in stock market segment were included in the administrative costs of 2006.

The administrative costs of the financial year comprise losses of kEUR 459 (2006: kEUR 332) from the translation of transactions concluded in a foreign currency into the reporting currency.

In the financial year 2007, research and development costs of kEUR 131 (2006: kEUR 26) were booked as expenses.

(7) RESULT FROM ASSOCIATED COMPANIES

The result from associated companies accounted for kEUR 55 in the financial year (2006: kEUR 17).

(8) FINANCIAL RESULT

The financial result fell by kEUR 693. Interest expenses of kEUR 1,101, mainly for short-term borrowing, were offset by interest income of kEUR 414, mainly from call money accounts.

(9) INCOME TAX

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

Income tax in k€	2007	2006
Actual tax	3,832	1,484
Deferred taxes	3,269	282
Total	**7,101**	**1,766**

The income tax expenses disclosed in the financial year 2007 of kEUR 7,101 is kEUR 661 lower than the expected income tax expenses of kEUR 7,762 which would have theoretically resulted from the application of the domestic tax rate of 35.98 percent (2006: 35.98 percent) to the pre-tax profit of the Group.

The difference between expected and disclosed tax expenses is attributable to the following:

Transition statement in k€	2007	2006
Earnings before tax at a computed tax rate of 35.98 %	21,572	4,792
Calculated income tax	7,762	1,724
Changes in calculated compared with actual tax expenses owing to:		
Income tax not related to the accounting period	– 71	13
Tax effect from non-deductible expenses	29	28
Release of actual tax liabilities	– 10	– 15
Tax revenue owing to divergent tax rates	– 780	0
Effect from changes in the tax rate	– 4	0
Expenses from the non-recognition of losses	105	0
Tax expenses owing to divergent tax assessment bases	27	16
Other divergences / consolidation	43	0
Total	**7,101**	**1,766**
Effective tax rate	**32.9 %**	**36.9 %**

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 tax), minus 3.44 percent from business tax eligibility for reduction in relation to the corporate tax base of a total of 35.98 percent on earnings before taxes.

In divergence therefrom, deferred tax as a result of the German corporate tax reform in 2008 in application of the business tax rate of 10.5 percent, of the corporate tax rate of 15 percent and the solidarity surcharge of 5.5 percent to corporate tax, is calculated at around 26 percent in total. From 2008 onwards, business tax is no longer eligible for deduction. Income tax was also lowered in Spain, with the result that deferred tax for Spanish Group subsidiaries and tax objects are calculated at a tax rate of 32.5 percent for temporary differences which reverse in the year 2007 and with a tax rate of 30 percent for temporary differences which are expected to reverse in 2008 or thereafter.

Deferred taxes are allocated to the following balance sheet items:

Deferred taxes by item in k€	2007	2006
Deferred tax liabilities		
Self-created intangible assets	6	10
Prepayments	0	52
PoC valuation of construction contracts	3,284	10
Derivatives valuation	45	58
Inventories valuation	89	25
Total	**3,424**	**155**

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

Phoenix Solar Pte Ltd, Singapore, a subsidiary acquired in 2007, sustained tax losses of kUSD 429, or kEUR 291, in the financial year 2007 which were not recognised, as taxation of positive results and relief through netting off losses are not permitted in the three-year start-up period of companies (so-called tax holidays).

(10) EARNINGS PER SHARE

Earnings per share are calculated pursuant to IAS 33 on the basis of consolidated profit after tax and after minority interest and the annual average number of shares outstanding.

Basic earnings per share (EPS)	2007	2006
Consolidated net income for the period in kEUR	14,481	3,024
Average number of shares outstanding (in units)	6,077,000	5,546,173
Basic earnings per share (EPS)	**2.38**	**0.55**

In the calculation of diluted earnings per share (EPS), the weighted average number of shares issued was adjusted for the number of potentially diluting shares. The calculation of the number of potentially diluting shares is based on the calculation of fictitious bonus shares which would need to be granted owing to the relation of the share price to the exercise price. The share option plan of the Phoenix Group is the cause of this type of potential dilution. The exercising of subscription rights in the context of this plan depends primarily on the performance of the share price of Phoenix Solar AG. In the calculation of the development certain performance criteria which have been defined in the share option plan are used.

Diluted earnings per share	2007	2006
Consolidated net income for the period in kEUR	14,481	3,024
Average number of shares outstanding (in units)	6,077,000	5,546,173
Adjustment for potentially diluting shares	1,639	0
Average number of shares outstanding (including potentially diluting shares)	6,078,639	5,546,173
Diluted earnings per share (in euros)	**2.38**	**0.55**

As per 31 December 2007, there was approved capital of kEUR 2,211 which, however, was not included in the calculations as no dilution effect arose therefrom in the current period. Contingent capital of kEUR 552 is only used in the calculation of diluted EPS in as much as share options have already been granted. The dilution effect is so minimal that the diluted EPS is almost the same as the basic EPS.

Consolidated net income generated for the period has raised unappropriated retained earnings as per 31 December 2007. The Board of Directors of Phoenix Solar AG proposes that a dividend of EUR 0.20 per share on 6,077,000 shares be distributed.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(11) INTANGIBLE ASSETS

For the development of book values, reference is made to the Analysis of fixed assets (see Note (14)).

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, the Phoenix Group began to develop a new system 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 cost of manufacturing which came to kEUR 29. With the completion of development and commissioning in 2007, scheduled amortisation is carried out over a useful life of five years.

Scheduled depreciation and amortisation are shown in the income statement under the Depreciation and amortisation item. Unscheduled write-downs were neither carried out in the financial year 2007 nor in the previous year.

Material intangible assets	Book value as per 31/12/2007	Remaining useful life
"Phoenix" trademark right	297	9 years
Software licenses	29	2 years
Development costs	21	4 years

(12) GOODWILL

Goodwill was generated in the process of the first-time consolidation of Phoenix Solar Energy Investments AG, purchased on 15 March 2002 (kEUR 272), Phoenix Solar S.L., purchased on 26 April 2006 (kEUR 6), and Phoenix Solar Pte Ltd (kEUR 14) purchased on 1 February 2007.

In application of IFRS 38, no scheduled amortisation will be 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 of the cash generating unit 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 10.61 percent (2006: 9.13 and 11.75 percent for domestic companies 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 2007, no unscheduled amortisation was carried out.

(13) PROPERTY, PLANT AND EQUIPMENT

For the development of book values, reference is made to the Analysis of fixed assets (see Note (14)).

The position mainly includes 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 14 years.

Expenses for low-value assets are included in depreciation (kEUR 38; 2006: kEUR 46), with an assumed useful life of one year.

As in the previous year, unscheduled write-downs were not necessary.

(14) ANALYSIS OF FIXED ASSETS

DEVELOPMENT OF FIXED ASSETS IN THE PHOENIX GROUP

	Cost of purchase and production			
2007 in k€	As per 01/01/	Addition	Disposal	As per 31/12/
Self-created intangible assets	29	–	–	29
Intangible assets	851	473	–	1,324
Goodwill	278	14	–	292
Property, plant and equipment	1,337	662	44	1,955
Total fixed assets	**2,495**	**1,149**	**44**	**3,600**
2006	01/01/			31/12/
Self-created intangible assets	–	29	–	29
Intangible assets	798	53	–	851
Goodwill	272	6	–	278
Property, plant and equipment	995	493	151	1.337
Total fixed assets	**2,065**	**581**	**151**	**2,495**

Accumulated depreciation and amortisation						
As per 01/01/	Addition	Disposal	Currency translation	As per 31/12/	Book values 31/12/2007	Book values 31/12/2006
–	7	–	–	7	22	29
484	53	–	–	537	787	367
–	–	–	–	–	292	278
527	253	43	–	737	1.218	811
1,011	**313**	**43**	–	**1,281**	**2,319**	**1,485**
01/01/				31/12/	31/12/2006	31/12/2005
–	–	–	–	–	29	–
435	48	–	–	484	367	363
–	–	–	–	–	278	272
484	188	145	–	527	811	512
919	**236**	**145**	–	**1,011**	**1,485**	**1,147**

(15) INVESTMENTS IN ASSOCIATED COMPANIES

Phönix SonnenFonds GmbH & Co. KG B1 (KG B1) and Renewable Energies Development 2002 S.r.l. (RED 2002) were valued using the at-equity method.

The book values developed as follows in the financial year:

in k€	2007	2006
Recognition as per 1 January	983	514
+ Addition	0	500
– Dividend distribution	47	47
+ Share in profits	55	16
Recognition as per 31 December	**991**	**983**

Valuation was carried out on the basis of the individual financial statements at company level converted to IFRS.

Summarised financial information on the associated companies

in k€	2007			2006		
	KG B1	RED 2002	**Total**	KG B1	RED 2002	**Total**
Assets	1,674	1,043	**2,717**	1,760	682	**2,442**
Liabilities	191	460	**651**	230	167	**397**
Revenues	188	3,195	**3,383**	180	1,043	**1,223**
Equity*	1,483	583	**2,066**	1,530	515	**2,045**
Total assets	1,674	1,043	**2,717**	1,760	682	**2,442**
Net income	104	46	**150**	47	4	**51**

*) For the purpose of presentation, the capital of KG B1 was disclosed as equity although, pursuant to IAS 32, it qualifies as debt; this relates particularly to settlement claims by the shareholders.

In connection with financial liabilities entered into (see Note (25)), the shares in Phönix SonnenFonds GmbH & Co. KG B1 were pledged as security to the lending bank in the amount of kEUR 405.

SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, founded in the financial year, is not accounted for as an associated company in the consolidated financial statements of Phoenix Solar AG as the Phoenix Group cannot exert a controlling influence over the financial and business policy of the company owing to its position solely as a limited partner. The shares have therefore been disclosed under Other participating interests.

(16) OTHER PARTICIPATING INTERESTS

Other participating interests 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, as well as a 50-percent stake in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, a company newly founded in the financial year. In 2007, the company had assets of kEUR 744, liabilities of kEUR 472, no revenues and a pre-tax result of kEUR – 20. SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG in turn holds a 100-percent stake in KALENTA Solar M.E.P.E. Greece.

(17) NON-CURRENT RECEIVABLES

This position comprises a purchase-money claim of kEUR 450 which is 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.

This item also includes a loan of kEUR 50 with a term until 30 June 2012, upon which interest of 6.5 percent p.a. is charged.

(18) INVENTORIES

The table below is a breakdown of inventories:

Inventories in k€	31/12/2007	31/12/2006
Merchandise	25,677	21,734
Depreciation	– 235	– 1,063
Recognition in the balance sheet	**25,442**	**20,671**

Inventories are mainly made up of photovoltaic modules.

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

The book value of the inventories recognised as per 31 December 2007 at the net selling price minus costs to sell stood at kEUR 742 (2006: kEUR 8,460). Depreciation expenses came to kEUR 235 (2006: kEUR 1,063).

Depreciation expenses are shown in the income statement under the Cost of materials item.

The book value of inventories recognised in the period as expenses posted kEUR 182,663 (2006: kEUR 87,413).

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

(19) PREPAYMENTS

The items relates to unsecured payments advanced to module suppliers.

(20) RECEIVABLES AND LIABILITIES FROM LONG-TERM CONSTRUCTION CONTRACTS

As per the reporting date, there were receivables relating to long-term construction contracts of kEUR 9,298 and liabilities of kEUR 427 for various projects in Germany, Spain and Greece. Contract revenues of kEUR 67,180 (2006: kEUR 26), contract costs of kEUR 52,616 (2006: kEUR 26) and profit of kEUR 14,564 (2006: kEUR 0) were recorded. None of the contracts are likely to result in a loss.

Prepayments of kEUR 57,342 (2006: kEUR 0) were made on the contracts.

As part of the long-term completion of contracts, borrowing costs were taken account of based on a cost of borrowing rate of 4.70 to 4.98 percent (2006: 0 percent).

In the case of Receivables from long-term construction contracts, receipt of payment is expected in the time bands shown below. Here it is assumed that, on the one hand, the contracts worked on to date in accordance with the planned payment agreement phases, or so-called milestones, have been fulfilled to schedule and, on the other, there are no significant time-related distortions between the time of contractual fulfilment of the milestone and the corresponding payment; in as much, this presentation differs from that used for the exceeding of payment dates of, for instance, trade receivables (see Note (21)):

		Payment expected			
As per 31/12/2007 in k€	Book value	in less than 30 days	between 31 and 90 days	between 91 and 360 days	in more than 360 days
Receivables from long-term construction contracts	9,298	429	6,578	2,181	110

		Payment expected			
As per 31/12/2006 in k€	Book value	in less than 30 days	between 31 and 90 days	between 91 and 360 days	in more than 360 days
Receivables from long-term construction contracts	26	0	0	0	26

21) TRADE RECEIVABLES

A breakdown of trade receivables is shown in the table below:

Trade receivables in k€	31/12/2007	31/12/2006
Receivables / Germany	16,197	12,265
Receivables / International	2,352	4,042
Sub-total	18,549	16,307
Minus valuation adjustments	– 234	– 234
Recognition in the balance sheet	**18,315**	**16,073**

The fair value of the trade receivables corresponds to the book values. The valuation adjustments were made for trade receivables which are likely to be uncollectable.

The table below shows the maturity structure of the receivables without adjustments. In contrast to the presentation of receivables from long-term construction contracts (see Note (20)), the time bands represent exceedings of the respective payment dates for the receivables already realised but not adjusted by the reporting date:

			Due and not impaired on the reporting date			
Per 31/12/2007 in k€	Book value	Neither impaired nor due	since less than 30 days	between 31 and 90 days	between 91 and 360 days	since more than 360 days
Trade receivables	18,315	9,451	6,854	0	51	1,959

The amount outstanding for more than 360 days mainly relates to one single receivable. Measures have been taken to assert the claims (see the information under Note (26)).

			Due and not impaired on the reporting date			
Per 31/12/2006 in k€	Book value	Neither impaired nor due	since less than 30 days	between 31 and 90 days	between 91 and 360 days	since more than 360 days
Trade receivables	16,073	3,983	7,230	4,860	0	0

Value adjustments to trade receivables allocated to the loans and receivables measurement category developed as follows in the reporting year:

in k€	2007	2006
Value adjustments as per 1 January	234	141
Currency differences	0	0
Utilisation	– 163	0
Release	– 3	– 6
Transfer	166	99
Value adjustments as per 31 December	**234**	**234**

The table below shows the expenses incurred by fully charging off trade receivables as well as the income from receipt of trade receivables which had been written off:

in k€	2007	2006
Expenses for the charging off of receivables	33	14
Income from payments received on written-off receivables	0	0

(22) OTHER FINANCIAL AND NON-FINANCIAL ASSETS

a) Other financial assets

Non-current other financial assets, which come to kEUR 1,031 (2006: kEUR 0), are mainly a standing advance of a large supplier. The advance has been secured by a bank guarantee. Moreover, the item includes a loan of kEUR 234 (2006: kEUR 0) to SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. The remaining amount comprises deposits made.

Other current financial assets are as follows:

Other current financial assets in k€	31/12/2007	31/12/2006
Receivables from financial transactions	360	1
Option right	160	0
Supplier credits	681	172
Creditor accounts in overdraft	133	85
Other	413	305
Total	**1,747**	**563**

The tables below show expected receipt of payment of other financial assets:

Per 31/12/2007 in k€	Book value	Payment expected in less than 30 days	between 31 and 90 days	between 91 and 360 days	in more than 360 days
Financial assets	3,108	342	908	497	1,361
Residual term of up to one year	1,747	342	908	497	0
Residual term of more than one year	1,361	0	0	0	1,361

Per 31/12/2006 in k€	Book value	Payment expected in less than 30 days	between 31 and 90 days	between 91 and 360 days	in more than 360 days
Financial assets	779	607	172	0	0
Residual term of up to one year	562	390	172	0	0
Residual term of more than one year	217	217	0	0	0

The option right, reclassified in the financial year, relates to the right to purchase another 26 percent of shares worth kEUR 160 (2006: kEUR 160) in Renewable Energies Development 2002 S.r.l., an associated company valued at equity. This right was measured at fair value. 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 fair value through profit and loss. 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 on the basis of the average EBIT in 2006 and 2007) using the amended corporate planning and the financial statements of 2006 and 2007 of RED 2002 S.r.l. and comparing the resulting figures.

The difference equates to the value 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 flows are discounted by a capitalisation interest rate of 10.61 percent (2006: 12.63 percent). The interest rate is made up of a base interest rate of 4.75 percent (2006: 4.25 percent) and a risk premium of 6 percent (2006: 8.55 percent) minus corporate tax of 1.32 percent (2006: 1.3 percent).

Changes in fair value at the time when the option right was recognised are always recorded in the income statement through profit and loss under Other operating income. The figure remained unchanged from the previous year.

The book value can change substantially if there are indications that the estimated cash flows may be lower or higher than originally anticipated or if the capitalisation interest rate has to be adjusted due to changed circumstances. The book value of the option may fluctuate between kEUR 0 and kEUR 184 until such date in 2008 when it is exercised.

The option right is due to be exercised in 2008.

In addition, financial assets include forward exchange transactions measured at fair value (kEUR 13) and currency options (kEUR 347) which have been assigned to the "held for trading" category and total kEUR 360. The fair value of forward exchange transactions was calculated by measuring the corresponding amounts denominated in a foreign currency using the forward rate and comparing it with the value which would have been assumed upon conclusion of a corresponding forward contract with maturity on the reporting date. The difference is the fair value adjustment. Assuming a 10 percent change in the currency parity, the book value of forward exchange transactions may fluctuate until the exercise date between a figure of kEUR – 337 and kEUR 337.

The fair value of the option was calculated using the Black-Scholes model.

Assuming a 10 percent change in the currency parity, the book value of forward exchange transactions may fluctuate until the exercise date between a figure of kEUR – 0 and kEUR 1,640.

PRESENTATION OF FINANCIAL ASSETS BY INDIVIDUAL CATEGORY

In the financial year and in the previous year, the Group only had the following categories for financial assets: "loans and receivables", "held for trading" and "valued at cost". Owing to recognition and measurement standards and their structures relating to maturity, the capitalised book values always correspond to the calculable attributable fair values, with the result that there is no unrealised profit or loss between values recognised and attributable fair value, and thus no need for a comparison of the values.

b) Other non-financial assets
Other non-financial assets are mainly foreign VAT claims (kEUR 531; 2006: kEUR 0).

(23) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows, provided they are available within three months:

Cash and cash equivalents in k€	31/12/2007	31/12/2006
Cash in hand	116	1
Deposits at banks	13,884	11,168
Total	**14,000**	**11,169**

Cash in hand and deposits at banks are capitalised in their nominal amount. The cash is not subject to any restraints on disposal.

Cash in hand and bank deposits denominated in a foreign currency are valued as per the exchange rate on the reporting date. Differences in valuation between the cost of purchase and fair value are 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 (2006: between 1.75 and 3.7 percent).

(24) EQUITY

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

As per 31 December 2007, the share capital came to kEUR 6,077 (2006: kEUR 6,077), divided up into 6,077,000 (2006: 6,077,000) no-par bearer shares (ordinary shares) and, as per the reporting date of the consolidated financial statements, was fully paid up.

Upon partial utilisation, the Approved Capital of 7 July 2006 (Approved Capital 2006/I) came to kEUR 2,211 (2006: kEUR 2,211) as per the reporting date.

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

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

The Annual General Meeting of 7 July 2006 passed an additional resolution that share capital of the company be raised conditionally by issuing up to EUR 552,000 by issuing 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 2011 as part of the share option plan 2006 in accordance with authorisation resolved by the Annual General Meeting of 7 July 2006, exercise their subscription rights to the shares of the company and the company grants own (treasury) shares in non-fulfilment of the subscription rights. On 10 September 2007, 33,250 options were issued, 1,250 of which expired at year-end, so that, as per 31 December 2007, there were 32,000 options.

INFORMATION ON CAPITAL MANAGEMENT

Capital management within the Phoenix Group is carried out centrally from headquarters in Sulzemoos by Phoenix Solar AG for itself and for the subsidiaries.

Phoenix Solar AG's main objectives in central capital management are:

- securing the capital base required for company growth;
- monitoring of the equity base;
- securing of the company as a going concern.

One of the main tasks derived from these objectives is the monitoring of compliance with the equity ratios in relation to banks in the context of covenants established in credit line agreements.

The managed capital corresponds to capitalised equity.

In the reporting year, the conditions of disclosing an equity ratio of at least 30 percent in the consolidated financial statements were maintained throughout.

The results were as follows:

in k€	2007	2006
Equity	47,326	33,346
Total assets	**77,102**	**54,009**
Equity ratio	61.4 %	61.7 %

(25) FINANCIAL LIABILITIES

Financial liabilities are disclosed under the following balance sheet items:

Financial liabilities in k€	31/12/2007	31/12/2006
Non-current financial liabilities (residual term of more than 1 year)	50	109
Current financial liabilities (residual term of up to 1 year)	73	57
Total	**123**	**166**

As per 31/12/2007 in k€	Book value	As per the reporting date, due in the following time bands: in less than 30 days	between 31 and 90 days	between 91 and 360 days	in more than 360 days
Financial liabilities	**123**	**28**	**10**	**35**	**50**
As per 31/12/2006					
Financial liabilities	166	6	12	39	109

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.

(26) PROVISIONS

The following table shows a breakdown of the provisions:

Provisions in k€	As per 01/01/2007	Utilisation	Release	Compounding /discounting (–)	Transfer	As per 31/12/2007
Non-current provisions						
Warranty provisions	494	0	0	– 183	304	615
Total	**494**	**0**	**0**	**– 183**	**304**	**615**
Current provisions						
Warranty provisions	306	91	80	0	239	374
Litigation costs	100	0	50	0	228	278
Complaints	64	15	34	0	0	15
Other	133	0	0	0	22	155
Total	**603**	**106**	**164**	**0**	**489**	**822**

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

The provision for litigation risks has been set up mainly for court cases against customers who have defaulted on payment and a compensation claim of a business partner from 2006 who, to date, has not yet submitted a statement of claim.

Provisions for customer complaints are formed for anticipated complaints not yet asserted by customers on the reporting date based on empirical experience. Other provisions comprise a number of issues relating to values recognised which are of minor importance in the individual case.

(27) TRADE PAYABLES

Trade payables are capitalised at the repayment amount. Due to the short-term periods of payment for these liabilities, the amount corresponds to the fair value of the liabilities.

All trade payables are due within one year.

(28) 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 financial liabilities:

Other financial liabilities in k€	31/12/2007	31/12/2006
Personnel-related liabilities	1,538	618
Other	234	19
Total	**1,772**	**637**

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

In addition, financial liabilities include currency swaps worth kEUR 4 assigned to the "held for trading" category. The fair value of the currency swaps was calculated by measuring the corresponding amounts denominated in a foreign currency using the forward rate and comparing it with the value which would have been assumed upon conclusion of a corresponding swap transaction with maturity on the reporting date. The difference is the fair value amount of the adjustment. Assuming a 10 percent change in the currency parity, the book value of currency transactions may fluctuate until the exercise date between a figure of kEUR –74 and kEUR 74.

Other non-financial liabilities in k€	31/12/2007	31/12/2006
VAT liabilities	6,089	2,897
Liabilities from wage tax and social security	203	64
Personnel-related liabilities	300	217
Total	**6,592**	**3,178**

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

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(29) 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 kEUR 1,568 with no effect on income which, in particular, related to deferred taxes on existing loss carryforwards.

(30) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been drawn up in accordance with the standards laid down under IAS 7. The cash flow statement comprises the cash flow from operating activities, the cash flow from investing 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 operations is carried out using the indirect method, whereas with cash flows from investing and financing activities, calculated using the direct method, exclusively payment-related transactions are disclosed.

The cash and cash equivalents shown in the cash flow statement comprise all liquid funds, i.e. cash on hand, cheques and deposits in banks provided they are available within a period of three months (see Note (23)).

F. OTHER NOTES

(31) SEGMENT REPORTING

BUSINESS SEGMENTS

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

- Power Plants
  Planning, sales 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 2007*

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Income statement					
External revenues	130,715	129,264	157	– 18	260,118
Sales revenue between segments	0	0	0	0	0
Revenues by segment	**130,715**	**129,264**	**157**	**– 18**	**260,118**
Segment result	17,959	4,261	7	– 23	22,204
Income from associated companies		55			55
EBIT					22,259
Financial result					– 687
Consolidated net income before tax					21,572
Income tax expenses					7,101
Profit net of minority interest					**14,471**
Profit due to minority interest					10
Consolidated net income					**14,481**
Other information					
Investments	609	537	2		1,148
Scheduled depreciation and amortisation	167	146	0		313
Non-cash expenses	– 116	– 103	– 1		– 220
Non-cash income	218	192	0		410

* In contrast to 2006, the activities of Phoenix Solar Energy Investments Aktiengesellschaft were allocated to the Power Plants segment.

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Balance sheet					
Assets					
Segment assets	37,361	38,007	46		75,414
Investments in associated companies		991			991
Assets not allocated					697
Consolidated assets					**77,102**
Liabilities					
Segment liabilities	10,458	13,560	17		24,035
Liabilities not allocated					5,741
Consolidated liabilities					**29,776**

For the financial year 2006

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Income statement					
External revenues	56,446	62,485	63	0	118,994
Sales revenues between segments	0	0	678	– 678	0
Revenues by segment	**56,446**	**62,485**	**741**	**– 678**	**118,994**
Result by segment	3,224	1,330	216	0	4,770
Income from associated companies		17			17
EBIT					4,787
Financial result					6
Consolidated net income before tax					4,793
Income tax expenses					1,767
Profit 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
Scheduled depreciation and amortisation	111	122	3	0	236
Non-cash expenses	51	56	0	0	107
Non-cash income	209	232	0	0	441

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Balance sheet					
Assets					
Segment assets	24,940	27,608	478	0	53,026
Investments in associated companies	0	983	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**

To enhance comparability of the figures from the current financial year with the previous year's figures, Investments in associated companies were allocated to the Components & Systems segment.

The segmentation of the operating result is carried out on the basis of the analyses of cost accounting. The sales of the Power Plants segment are exclusively project-related services so that the respective proportionate realisation of profit has been taken account of.

The allocation of other parameters to be segmented by business line in respect of the Power Plants and Components & Systems segments has been carried out with the aid of an allocation formula derived on a uniform basis from revenues.

Segment assets are defined as the sum total of non-current and current assets, minus investments in associated companies, as well as tax claims and interest-bearing receivables. With the exception of income tax liabilities and interest-bearing liabilities, segment liabilities are made up of non-current and current liabilities. This is also applicable to information on the secondary segment.

Income from the release of provisions, liabilities and provisions for losses, as well as the fair value measurement of option rights was 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, in Europe and in non-European countries.

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

Revenues by geographical market in k€	2007	2006
Germany	189,572	104,778
EU excluding Germany	70,379	14,153
Other	167	63
Total	**260,118**	**118,994**

The following table shows the book values of the segment assets and the costs of purchase or additions to intangible assets and property, plant and equipment, divided up by the geographical regions in which the assets are located:

	Book value of the segment assets		Additions to tangible and intangible assets	
in k€	31/12/2007	31/12/2006	2007	2006
Germany	73,704	53,234	1,091	575
EU excluding Germany	2,342	775	26	7
Other	359	0	31	0
Total	**76,405**	**54,009**	**1,148**	**582**

(32) INFORMATION ON BUSINESS WITH RELATED PARTIES AND COMPANIES

The associated company Renewable Energies Development 2002 S.r.l. sourced goods worth kEUR 2,508 (2006: kEUR 580) from Phoenix Solar AG. On the reporting date, Phoenix Solar AG had an unsettled receivable vis-à-vis Renewable Energies Development 2002 S.r.l. of kEUR 259.

The subsidiary Phoenix Solar Energy Investments AG has acquired a stake of kEUR 150 in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. The company granted SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG an interest-bearing loan of kEUR 234 in the financial year. The latter has disclosed an open liability vis-à-vis Phoenix Solar Energy Investments AG in its financial statements. Interest on the loan received by Phoenix Solar Energy Investments Aktiengesellschaft came to kEUR 2.

Information on the shareholdings of the executive bodies:

Board of Directors	Number of shares
Dr. Andreas Hänel	242,200
Manfred Bächler	183,530
Dr. Murray Cameron	69,750
Sabine Kauper	0
Total	**495,480**

Supervisory Board	Number of shares
J. Michael Fischl	0
Ulrich Fröhner	24,600
Ulrich Th. Hirsch	0
Prof. Dr. Klaus Höfle	2,175
Dr. Patrick Schweisthal	5,450
Prof. Dr. Thomas Zinser	0
Total	**32,225**

As part of the 2006 Share Option Plan, the following share options were granted to the members of the Board of Directors:

Board of Directors	Number of share options
Dr. Andreas Hänel	4,500
Manfred Bächler	4,500
Dr. Murray Cameron	4,500
Sabine Kauper	4,500
Total	**18,000**

(33) CONTINGENT LIABILITY

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

(34) CONTINGENT RECEIVABLES AND LIABILITIES

There are no contingent receivables and liabilities.

(35) OTHER FINANCIAL OBLIGATIONS

The Group has financial liabilities totalling kEUR 2,526 (2006: kEUR 3,901) arising from a number of rental and leasing agreements. Of this total, an amount of kEUR 503 (2006: kEUR 485) is due within one year, the amount of kEUR 1,084 (2006: kEUR 1,485) has residual terms of between one and five years and an amount of kEUR 939 (2006: kEUR 1,931) has a residual term of over five years.

On the reporting date, there was a purchase commitment of kEUR 45,864 (2006: kEUR 18,107) from a number of purchase agreements. The purchase commitment for assets which are part of non-current assets stood at kEUR 23 (2006: kEUR 366).

The company has an obligation up until 2012 to purchase material (solar modules) worth kEUR 737,682 (2006: kEUR 481,820) based on a framework agreement with a manufacturer of thin-film modules.

(36) RISK MANAGEMENT SYSTEM

Phoenix Solar AG is exposed to currency risk through its assets, liabilities and planned transactions.

The aim of financial risk management is to limit this risk through ongoing activities at the operational and financial level. Selected derivative hedging instruments are used depending on the assessment of risk. However, only the risks which could have an impact on the cash flow of the Group are hedged. Derivative financial instruments are used exclusively as hedging instruments, i.e. they are not used for trading or other speculative purposes.

The fundamental principles of the finance policy are reviewed and established once a year by the Board of Directors and monitored by the Supervisory Board. The implementation of the finance policy and flanking risk management are the tasks of Group Treasury. Certain transactions require the prior approval of the Board of Directors which is additionally kept regularly informed of the scope and the amount of risk incurred.

CURRENCY AND INTEREST RATE RISKS

The Phoenix Solar Group is exposed to currency risk because its business strategy is geared towards international markets which are becoming increasingly important for the company. Treasury therefore regards effective management of the currency risk as one of its core tasks which it fulfils through an active currency hedging strategy.

Risks from foreign currencies are hedged if they have an impact on the Group’s cash flow. By contrast, currency risks which do not affect the cash flow of the company (i.e. risks which result from the translation of the assets and liabilities of foreign entities into the Group's reporting currency) are not hedged.

At the operating level, currency risks arise from planned payments denominated in a currency other than the functional currency incurred by the procurement of modules.

In order to limit or avoid these risks, derivatives are used for hedging purposes. The Group uses forward exchange transactions, swaps and currency options to hedge payments upfront into the following financial year. As per the reporting date on 31 December 2007, there were forward exchange transactions in a nominal volume of a converted kEUR 3,357 (2006: kEUR 0), currency swaps of kEUR 740 (2006: kEUR 0) and currency options of kEUR 12,927 (2006: kEUR 0).

Accordingly, Phoenix Solar AG is exposed to market price risks inherent in certain currency derivatives. The derivatives in question are currency derivatives used to secure underlying transactions and budget positions. Changes in the price of the currencies underlying such financial instruments have an impact on other operating income or expenses (valuation result from the fair value adjustment of financial assets). If the euro had appreciated or depreciated against all other currencies by 10 percent on 31 December 2007, other operating income or expenses and the fair value of hedging deals would have been kEUR 2,051 higher or kEUR 758 lower (31 December 2006: kEUR 0). The theoretical impact on the result is based on EUR / JPY currency sensitivities.

Monetary financial instruments (cash and cash equivalents, receivables, non-interest bearing receivables) are mainly directly denominated in the functional currency. Changes in the exchange rate therefore have no impact on the result or on equity. Interest income and expenses from financial instruments are also recorded in the functional currency. For this reason, there will also be no impact from the parameters considered on these items.

Moreover, the company carries out interest rate management which is, however, of minor significance in the financial year owing to the markets addressed. The business model in particular, as well as positions on the liabilities side resulting therefrom, are subject only to a minor extent to interest rate risk. There was therefore no need to have active interest rate hedging in this area.

DEFAULT RISK

The default risk of the Group results primarily from trade receivables. 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 empirical 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.

The maximum default risk is reflected by the book values of the financial assets recorded in the balance sheet (including derivative instruments with a positive market value). On the reporting date, there were no material agreements reducing the maximum default risk (e.g. netting agreements).

LIQUIDITY RISK

In order to guarantee the solvency and the financial flexibility of the Phoenix Group at all times, a liquidity reserve consisting of credit lines and cash funds has been set up for the event that they are needed. To this end, Phoenix Solar AG has concluded standard credit line agreements with four banks and an aggregated volume of kEUR 74,800.

The conditions are contingent upon the credit rating of Phoenix Solar AG. Around a quarter of the credit line agreements have a term of six months and can be renewed by another six to twelve months respectively. The remaining portion can only be terminated under certain conditions.

(37) SHARE-BASED PAYMENT

On 4 August 2007, the Board of Directors was authorised by the Supervisory Board to dispose of 552,500 subscription rights divided up into 221,000, 110,500 and 221,000 shares.

Within the scope of this authorisation, the Board of Directors of Phoenix Solar AG set up a share option plan ("2006 Share Option Plan") under which a total of 33,250 share options of Phoenix Solar AG can be issued to members of the Board of Directors, to management of subsidiaries and other parties providing services to the Group.

The options can only be exercised by optionees if they have a valid employment contract with the Company or a Group company and if the employment contract has not been effectively terminated by either party at the time when the rights are exercised. Of the 33,250 options 1,250 have expired through employees leaving the company. The plan will run for seven years. Each option right entitles the holder to subscribe to one ordinary share of the company at a strike price of EUR 19.32 per share.

The fair value of the options was calculated by way of (Monte-Carlo) simulation. The simulation was based on the following parameters:

Exercise strategy:	Earliest date when options can be exercised
Grant date:	10 September 2007
Valuation date:	10 September 2007
Company's share price on the valuation date:	EUR 18.90
Vesting period:	2 years
Term (including vesting period):	7 years
Strike price:	EUR 19.32
Risk-free rate:	4.09 %
Volatility:	66.33 %

Option period:	Within an option period, option rights may not be exercised 14 calendar days prior to the date when quarterly reports are released and in the period from the end of the financial year until the date when the results of the previous financial year are published.
Exercise hurdles:	The option rights may only be exercised by the optionee if the closing price of the share of the Phoenix Solar AG in XETRA trading of the Frankfurt Stock Exchange (or a comparable successor system) exceeds the strike price by 40 percent upon exercise of the option right in the first year of the option period on ten consecutive trading days. The percentage rate will rise in the subsequent years by 20 percentage points respectively.

Annual dividend per share:	EUR 0.10
Due dates of dividend:	ca 15 June of the respective year
Number of simulations carried out:	10,000,000

The volatility was calculated as historical volatility from the share price performance of the company from 19 November 2004 until 13 July 2007.

The risk-free rate was calculated using the Svensson method. Based on these calculation methods, the value of an option has been set at EUR 10.177. The total value of the 32,000 options to be valued is thus EUR 325,664.00.

Owing to the distribution of expenses over the period from the grant date until expiry of the vesting period, the expenses incurred by share-based payment came to EUR 54,300.00 in the financial year 2007.

Compensation was fully made through the issuing of equity capital instruments.

(38) MATERIAL EVENTS AFTER THE REPORTING DATE

In January 2008, Madrid-based Phoenix Solar S.L., the Spanish subsidiary of Phoenix Solar AG, signed contracts for the construction of three power plants in total with a peak power output of more than 9 megawatt (MW). This corresponds to revenues of over EUR 40 million.

At the start of February 2008, Phoenix Solar Energy Investments AG signed an agreement with Trier-based Bürgerservice GmbH for the development of ground-mounted photovoltaic plants. Under this agreement Bürgerservice GmbH will undertake to develop solar projects for Phoenix Solar Energy Investments AG in the region of Trier, Rhineland Palatinate/Saarland, over the next two years. The planned volume of this project development agreement is approximately EUR 100 million.

On 14 February 2008, subject to approval by the Supervisory Board, the Board of Directors of Phoenix Solar AG decided to put forward a proposal to the Annual General Meeting that dividend payment for the financial year 2007 be doubled to EUR 0.20 per share (2006: EUR 0.10). The Board of Directors bases its decision to raise dividend on the extremely successful course of business in the financial year 2007. Phoenix Solar AG thus confirms its intention of pursuing an investor-oriented dividend policy geared to the growth and the respective business situation of the company. All 6,077,000 of the currently traded shares of Phoenix Solar AG are entitled to dividend. The final proposal on dividend to be addressed to the Annual General Meeting on 3 June 2008 will be published when the Annual General Meeting is convened.

At the end of February 2008, Phoenix Solar AG signed a framework agreement with the module manufacturer Signet Solar through to the year 2011 for the delivery of solar modules with a peak power output of around 50 megawatt. The supply of new generation thin-film modules with dimensions of up to 5.7 m^2 has been agreed. The module manufacturer Signet Solar is located in Döbeln, Saxony. Production of the solar modules is scheduled to start in mid-2008.

Furthermore, Renewable Energies Development 2002 (RED 2002) S.r.l., Rome, Italy was fully consolidated for the first time on 1 January 2008. Phoenix Solar AG currently holds a direct participation in the capital of 49 percent. In addition, the company has secured an option to purchase another 26 percent. The restrictive conditions imposed on the exercising of the purchase option expired on 1 January 2008. Accordingly, the company has potential voting rights which must be taken into consideration in the assessment of whether the Phoenix Group has the possibility of exercising a controlling influence on the financial and business policy of the company.

At the current point in time, purchase price allocation is being made. Accordingly, the presentation of the effect of the first-time consolidation on the net assets, financial position and results of operation can only be estimated approximately (IFRS data as per 31 December 2007):

Addition of assets:	kEUR	1,043
Addition of liabilities:	kEUR	460
Equity	kEUR	583

The company does not anticipate significant differences between the book values of the balance sheet items and the corresponding fair values.

G. SUPPLEMENTARY REPORTING DUTIES UNDER THE GERMAN COMMERCIAL CODE (HGB)

(39) OVERVIEW OF HOLDINGS

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

Name of the company	Headquarters	Amount of participation*	Equity 31/12/2007 (IFRS / HGB) in k€	Result 2007 (IFRS / HGB) in k€
Affiliated companies				
Phoenix Solar Energy Investments Aktiengesellschaft	Sulzemoos, Germany	100 %	2,670	2,376
Phönix SonnenFonds Verwaltungs GmbH	Sulzemoos, Germany	100 %	44	– 4
Phoenix Solar S. L.	Madrid, Spain	95 %	1,310	1,251
Phoenix Solar Pte Ltd	Singapore, Singapore	75 %	48	– 292
Associated companies				
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos, Germany	31.2 %	1,483**	104
Renewable Energies Development 2002 S.r.l.	Rome, Italy	49 %	583	46
Other participations				
Phönix SonnenFonds GmbH & Co. KG D4	Sulzemoos, Germany	100 %	1	0
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG	Grünwald, Germany	50 %	272	– 19

* The amount of holding in the capital corresponds to the proportion of voting rights.
** This is a settlement obligation due to the shareholders at book value, which is not classified under IFRS as equity capital.

(40) 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)
All members of the Board of Directors are authorised sole representatives.

The remuneration of the Board of Directors in 2007 totalled kEUR 1,315 (2006: kEUR 500), which breaks down as follows:

The main activities are allocated as follows:

Board of Directors in k€	Fixed components	Performance-based components	Components with long-term incentive effect	Total
Dr. Andreas Hänel	140	152	46	338
Manfred Bächler	143	143	46	332
Dr. Murray Cameron	132	143	46	321
Sabine Kauper	133	145	46	324
Total	**548**	**583**	**184**	**1,315**

The components with long-term incentive effect relate to share options granted in the financial year.

Each member of the Board of Directors was granted 4,500 options with a fair value of EUR 10.777 each.

(41) 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 a. Ammersee, lawyer and tax advisor

Prof. Dr. Klaus Höfle, Giengen, personnel consultant and trainer, Managing 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

Dr. Patrick Schweisthal is also the Chairman of the Supervisory Board of Phoenix Solar Energy Investments AG, Sulzemoos

In the financial year 2007, the total remuneration of the Supervisory Board members came to kEUR 117 (2006: kEUR 83) and breaks down as follows:

Supervisory Board in k€	Fixed components	Performance-based components	Components with long-term incentive effect	Total
J. Michael Fischl	22	15	0	37
Ulrich Fröhner	12	8	0	20
Ulrich Th. Hirsch	10	5	0	15
Prof. Dr. Klaus Höfle	10	5	0	15
Dr. Patrick Schweisthal	10	5	0	15
Prof. Dr. Thomas Zinser	10	5	0	15
Total	**74**	**43**	**0**	**117**

(42) FEES OF THE INDEPENDENT AUDITOR

The fees paid to the auditing company and subsequently booked as expenses in 2007 were as follows:

Fees of the Independent Auditor in k€	2007	2006
Audit of the financial statements	104	83
Other certifying and valuation services	0	132
Other services	21	18
Total	**125**	**233**

The fees for other services mainly comprises services in connection with questions relating to the presentation of individual components in the interim financial statements, as well as travel and entertainment expenses.

The fees for other certifying and valuation services in 2006 mainly comprise services provided in connection with the change of stock market segment and the capital increase of Phoenix Solar AG. In this connection, additional fees of T EUR 53 were set off directly against capital reserve pursuant to IAS 32.37.

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

The Board of Directors and the Supervisory Board submitted the Declaration of Conformity pursuant to Section 161 German Stock Corporation Act (AktG) and have made it permanently available to the shareholders on the company's website.

The Declaration of Conformity was submitted and released on 28 March 2007.

(44) NOTIFICATIONS IN ACCORDANCE WITH SECTION 160 PARA. 1 GERMAN STOCK CORPORATION ACT (AKTG) ON INTERESTS HELD IN PHOENIX SOLAR AG PURSUANT TO SECTION 26 GERMAN SECURITIES TRADING ACT (WPHG)

1. NOTIFICATION BY DGAP ON 1 FEBRUARY 2007:

Phönix SonnenStrom Aktiengesellschaft, Sulzemoos
WKN A0BVU9 / ISIN DE000A0BVU93
Veröffentlichung einer Mitteilung gemäß § 26 Abs. 1 WpHG

Die Deutsche Bank Aktiengesellschaft, 60325 Frankfurt am Main, Deutschland, hat uns gemäß § 21 Abs. 1 WpHG am 30. Januar 2007 mitgeteilt, dass die Investmentgesellschaft FPM Funds SICAV, 1115 Luxembourg, Luxemburg, am 25. Januar 2007 die Meldeschwelle von 3 Prozent der Stimmrechte an unserer Gesellschaft unterschritten hat und nunmehr einen Stimmrechtsanteil von 2,50 Prozent hält.

2. NOTIFICATION BY DGAP ON 10 APRIL 2007:

Phönix SonnenStrom Aktiengesellschaft, Sulzemoos,
WKN A0BVU9 / ISIN DE000A0BVU93,
Veröffentlichung einer Mitteilung gemäß § 26 Abs. 1 WpHG

Die Absolute Capital Management Holdings Limited George Town, Cayman Islands hat uns gemäß § 21 Abs. 1 WpHG am 05.04.2007 mitgeteilt, dass ihr Stimmrechtsanteil an der Phönix SonnenStrom AG, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9 am 03.04.2007 durch Aktien die Schwelle von 3 % der Stimmrechte unterschritten hat und nunmehr 2,847 % (das entspricht 173.000 Stimmrechten) beträgt. 2,847 % der Stimmrechte (das entspricht 173.000 Stimmrechten) sind der Gesellschaft gemäß § 22 Abs. 1, Satz 1, Nr. 1 WpHG von der Absolute Germany Fund Limited, 2,847 % der Stimmrechte (das entspricht 173.000 Stimmrechten) sind der Gesellschaft gemäß § 22 Abs. 1, Satz 1 Nr. 6 WpHG von der Absolute Germany Fund Limited zuzurechnen.

3. NOTIFICATION BY DGAP ON 10 APRIL 2007:

Phönix SonnenStrom Aktiengesellschaft, Sulzemoos
WKN A0BVU9 / ISIN DE000A0BVU93
Veröffentlichung einer Mitteilung gemäß § 26 Abs. 1 WpHG

Die Absolute Germany Fund Limited George Town, Cayman Islands hat uns gemäß § 21 Abs. 1 WpHG am 05.04.2007 mitgeteilt, dass ihr Stimmrechtsanteil an der Phönix SonnenStrom AG, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9 am 03.04.2007 durch Aktien die Schwelle von 3 % der Stimmrechte unterschritten hat und nunmehr 2,847 % (das entspricht 173.000 Stimmrechten) beträgt.

4. NOTIFICATION BY DGAP ON 19 OCTOBER 2007:

At 18/10/2007 we were informed by Dr Oliver Rothley, Attorney at Law, TaylorWessing, Munich, about a notification of voting rights according to sec. 21 para. 1 WpHG:

According to sec. 21 para. 1 WpHG I inform you in the name and on behalf of David Gelbaum and Monica Chavez Gelbaum, (...) USA, that on 12.10.2007 the share of voting rights of David

Gelbaum and Monica Chavez Gelbaum as joint owners (‚Gesamthandsberechtigte') in Phoenix Solar AG, Hirschbergstraße 8, D-85254 Sulzemoos (ISIN: DE 000A0BVU93) exceeded the threshold of 3 % and amounts to 3,19 % (193.968 voting rights) on that day.

5. NOTIFICATION BY DGAP ON 11 DECEMBER 2007:

On 07/12/2007 we were informed by Stephan M. Heinemann, Attorney at Law, TaylorWessing, Munich, about a notification of voting rights according to sec. 21 para. 1 WpHG:

According to sec. 21 para. 1 WpHG I inform you in the name and on behalf of David Gelbaum and Monica Chavez Gelbaum, (...) USA, that on 04.12.2007 the share of voting rights of David Gelbaum and Monica Chavez Gelbaum as joint owners (‚Gesamthandsberechtigte') in Phoenix Solar AG, Hirschbergstraße 8, D-85254 Sulzemoos (ISIN: DE 000A0BVU93) exceeded the threshold of 5 % and amounts to 5,229 % (317.818 voting rights) on that day.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 20 March 2008

Phoenix Solar Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

Affirmation by the legally Authorised Representatives

To the best of our knowledge, we hereby affirm that, pursuant to the generally accepted accounting principles, the consolidated financial statements give a true and fair view of the assets, financial position and the results of operations of Phoenix Solar AG, and that the Management Report gives a true and fair reflection of the development of the Phoenix Group's business, including its performance and situation, as well as describing the material risks and opportunities inherent in the prospective development of the Group.

Sulzemoos, 20 March 2008

Phoenix Solar Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements, prepared by Phoenix Solar Aktiengesellschaft, Sulzemoos, comprising the consolidated balance sheet, the income statement, the statement of changes in shareholders' equity, the cash flow statement and the notes to the accounts, as well as the Management Report on the company and the Group for the financial year from January 1 to December 31, 2007. The consolidated financial statements and the Management Report on the Group, prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a para. 1 German Commercial Code (HGB), are the responsibility of the authorised representatives of the company. It is our task to make an audit judgement of the consolidated financial statements and the Management Report based on our audit examination. Moreover, we were commissioned to assess whether the consolidated financial statements comply overall with IFRS.

We have performed our audit of the consolidated financial statements in accordance with Section 317 German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements as promulgated by the Institute of German Public Accountants (IDW). Under these standards, the audit is to be planned and executed in such a way that, in accordance with the accounting standards applicable, inaccuracies and misstatements which have a major impact on the true and fair view given by the consolidated financial statements and the Management Report, as well as of the net worth, financial position and results of operation can be detected with sufficient certainty. The planning of the audit procedure drew on knowledge of the Group's business and the economic and legal environment in which the Group operates, as well as on the expectations of possible errors. Within the scope of the audit, the effectiveness of the accounting standards-related internal control systems, along with evidence upon which the information in the consolidated financial statements and the Management Report on the parent company and the Group is based, is assessed predominantly on the basis of sample checks. The scope of the audit comprised the assessment of the annual financial statements of the companies included in the Group financial statements, of the definition of the group of consolidated companies, of the accounting and consolidation policies applied and of the substantive estimates of the authorised representatives, as well as an appraisal of the overall presentation of the consolidated financial statements and Management Report on the parent company and the Group. We are of the opinion that our audit provides a sufficiently secure basis for our audit judgement.

Our audit did not give rise to any objections.

In our opinion, based on the outcome of the audit, the consolidated financial statements of Phoenix Solar Aktiengesellschaft, Sulzemoos, comply with IFRS, as applicable within the EU, with the supplementary provisions which are applicable pursuant to Section 315a para. 1 of the German Commercial Code (HGB) as well as IFRS in their entirety and, in observance of these standards, give a true and fair view of the net worth, financial position and results of operations of the Group. The Management Report accords with the consolidated financial statements and reflects an overall accurate view of the situation of the Group as well as giving an appropriate account of the opportunities and risks inherent in its future development.

Munich, 28 March 2008
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa.

A. Haas	M. Rauchfuss
Certified Public Accountant	Certified Public Accountant

Abbreviations

AktG	German Stock Corporation Act (Aktiengesetz)
BOS	Balance-of-system (costs), see Glossary
BSW	German Solar Industry Association (Bundesverband Solarwirtschaft e.V.)
DAX	German share index (Deutscher Aktienindex)
DCGK	German Corporate Governance Code (Deutscher Corporate Governance Kodex)
dena	German Energy Agency (Deutsche Energie Agentur)
EBIT	Earnings before interest and taxes (Ergebnis vor Zinsen und Steuern)
EBT	Earnings before taxes (Ergebnis vor Steuern)
EEG	German Renewable Energies Act
EPIA	European Photovoltaic Industry Association
EUR	Euro
Fifo	Fist-in-first-out
FSC	Forest Stewardship Council
GW	Gigawatt
GWp	Gigawatt peak power output
HGB	German Commercial Code (Handelsgesetzbuch)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IDW	Institute of German Public Accountants (Institut der Wirtschaftsprüfer)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IWR	International Economic Platform for Renewable Energies (Internationales Wirtschaftsforum Regenerative Energien)
JPY	Japanese Yen
KW	Kilowatt
kWh	Kilowatt hour
MW	Megawatt
MWp	Megawatt peak power output
NABU	German society for nature conservation (Naturschutzbund Deutschland e.V.)
NAI	German Nature Stock Index (Natur-Aktien-Index)
PoC	Percentage-of-completion
PV	Photovoltaic
RENIXX® World	Renewable Energy Industrial Index
SIC	Standing Interpretations Committee
TecDAX	Technology DAX
USD	US-Dollar
USt	Value-added tax (Umsatzsteuer)
VorstOG	German Act on the Disclosure of Executive Board Remuneration

Glossary

AMORPHOUS MODULES

Amorphous modules are made of silicon-coated glass panes. They are recognisable by their brown colour. Despite an efficiency below that of crystalline modules (ca 6 percent) they are very efficient as they can also use weak, diffuse light.

BALANCE-OF-SYSTEM COSTS (BOS)

The Balance-of-system costs of a photovoltaic system are made up of the costs of all components except those of the modules. BOS costs comprise planning costs, construction preparation costs, the mounting system, DC cabling, inverters, buildings, grid connection and installation. The aim is to optimise BOS costs on an ongoing basis through the use of cost-effective components and innovative developments. Components such as the mounting system, DC cabling and inverters harbour the greatest potential for lowering costs.

THIN-FILM MODULES

In the manufacturing of thin-film modules, active photovoltaic layers are applied directly to a glass pane. Thin-film modules can have active substances such as amorphous silicon, copper indium diselinide or cadmium telluride. Compared with crystalline modules, the advantages of thin-film modules are the lower costs of manufacturing and lower losses due to shadowing.

GERMAN RENEWABLE ENERGIES ACT

German legislation on prioritising renewable energies is the legal basis which regulates feeding into the public-sector grid and the remuneration of electricity from renewable energy sources.

KILOWATT (KW)

Unit in which the power of a solar electricity system is measured.

KILOWATT HOURS (KWH)

Unit of measurement for energy used or generated. One kilowatt hour equals a kilowatt over the period of an hour. The kilowatt hour is a unit of energy commonly used for the measurement of household electricity consumption. One kilowatt hour is sufficient to light a hundred watt bulb for ten hours.

MICROMORPHOUS MODULES

Micromorphous modules combine both amorphous and microcrystalline technologies. An additional microcrystalline silicon layer raises the spectrum absorbed by the solar modules almost up to the infrared range. Micromorphous tandem modules therefore reach an efficiency of up to ten percent.

MONOCRYSTALLINE CELLS

The input material for monocrystalline cells is high-purity silicon which is extracted from silicon melt and fabricated into wafers of up to twelve centimeters in diameter. All photonic crystals are evenly distributed in monocrystalline.

POLYCRYSTALLINE CELLS

Solar silicon is first cast as ingots and then cut into wafers of 0.25 to 0.4 millimetres thick. The cells thus manufactured are made up of many small single crystals (so-called crystallites) which are separated by grain boundaries. The pattern which results from the composition of different crystals is an unmistakable feature.

SOLAR MODULES

A solar module is a system ready for installation which will generate solar electricity and which is made up of many solar cells connected up together. The solar module is embedded between two glass panes or between a glass pane and a Tedlar foil and thus protected from weather exposure.

SOLAR SILICON

Silicon crystals which have a sufficient degree of purity for photovoltaic applications are defined as solar silicon. In solar technology, a large part of the solar cells are manufactured on the basis of monocrystalline or polycrystalline silicon.

SOLAR CELLS

Solar cells, when exposed to light, release positive and negative charge carriers (photovotaic effect) which generates continuous current. Semi-conductor material is systematically doped with impurities in the manufacturing of a solar cell. When two semi-conductor layers with different impurities are put together, a so-called p-n junction is generated between the layers. An electric field is generated at this junction which separates the charge carriers set free by photons. Voltage is tapped through contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell.

PEAK POWER OUTPUT

The maximum power output possible of a solar electricity system given standard test conditions is defined as the peak power output. It is measured in watt (W) and stated as watt peak (Wp). Standard test conditions are defined as solar irradiation of one kilowatt per square metre at an angle of 45 degrees and module temperature of 25 degrees Celsius.

INVERTERS

The continuous current generated by the solar cells is converted into grid-compatible alternating current by the inverter.

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FINANCIAL CALENDAR 2008

03/03/2008	Preliminary figures for the financial year 2007
24/04/2008	Annual Report 2007
15/05/2008	Q1 Report / Interim Figures as per 31/03/2008
03/06/2008	Annual General Meeting 2008
14/08/2008	Q2 Report / Interim Figures as per 30/06/2008
13/11/2008	Q3 Report / Interim Figures as per 30/09/2008

All data without guarantee. Subject to changes on short notice.

The Annual Report is also available in German.
Both versions are available as .pdf files on the company website.
This is an English translation of the German original. Only the German version is binding.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on future developments which are based on management's current assessments. Words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "can/could", "plan", "project", "forecast", "should", and similar terms are indicative of such forward-looking statements. Such statements are subject to certain risks and uncertainties which are mainly outside the sphere of influence of Phoenix Solar AG, but which have an impact on the business activities, the success, the business strategy and the results. These risks and factors of uncertainty include, for instance, climatic change, changes in the state subsidisation of photovoltaics, the introduction of competitor products or technologies of other companies, the development of the planned internationalisation of business activities, fierce competition as well as rapid technological change in the photovoltaic market. If one of these or other factors of uncertainty or risks should occur, or if the assumptions underlying the statements should prove incorrect, the actual results may diverge substantially from the results in these statements or implicit indications. Phoenix Solar AG does not have the intention nor will it undertake any obligation to realise forward-looking statements on an ongoing basis or at a later point in time as this is entirely dependent on circumstances prevailing on the day of their release.

Making
energy
together

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