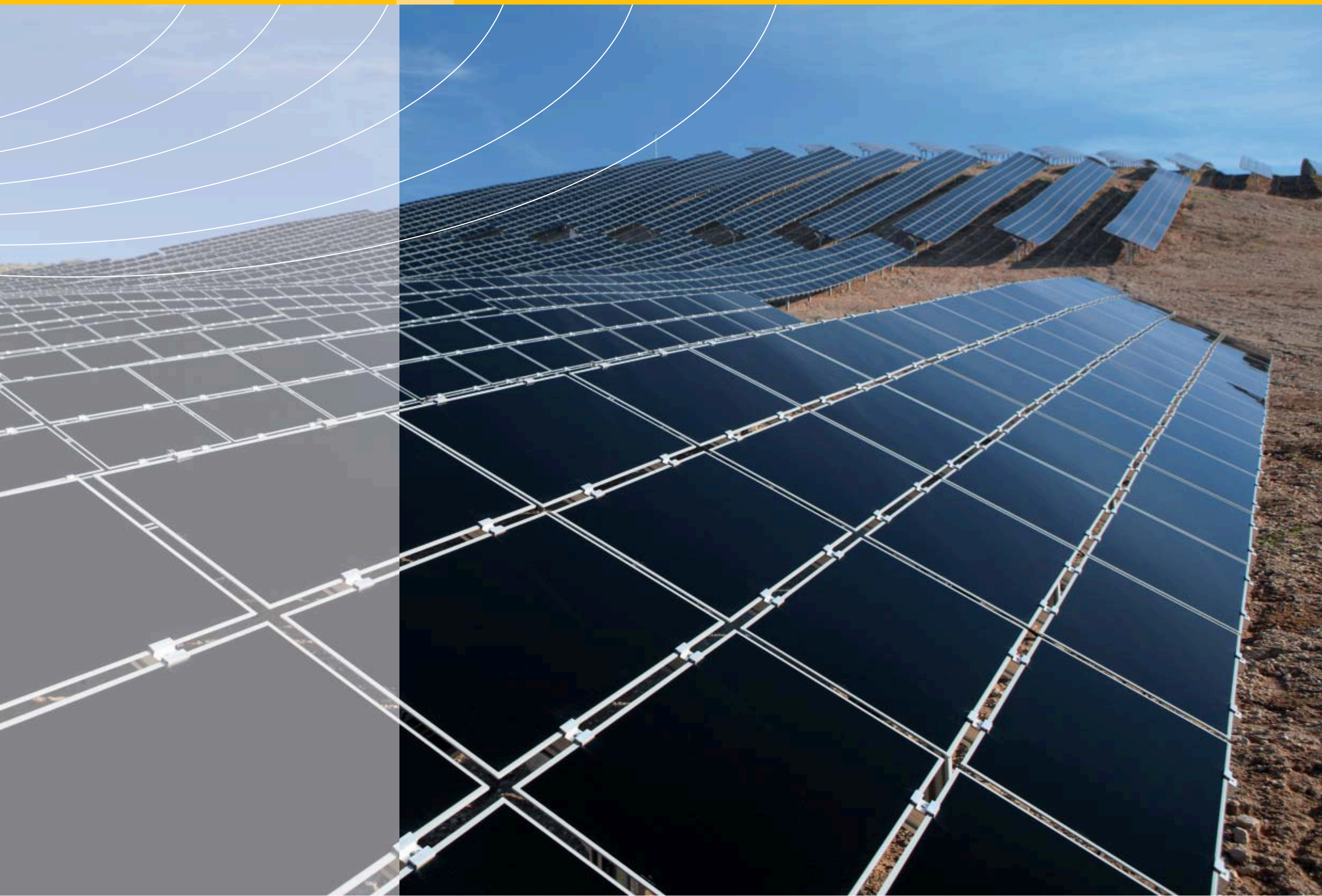
2008 Annual Report



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Phoenix Solar AG in Figures

Reporting date / period		2005	2006	2007	2008
Balance sheet [1]					
Total assets	in k€	36,331	54,009	77,102	**127,763**
Equity	in k€	23,244	33,346	47,326	**89,311**
Equity ratio	%	64.0	61.7	61.4	**69.9**
Return on equity	%	41.2	13.0	43.4	**50.1**
Results					
Total sales revenue	in k€	111,116	118,994	260,118	**402,494**
EBIT	in k€	7,711	4,786	22,259	**33,823**
EBIT margin	%	6.94	4.02	8.56	**8.40**
Result for the period	in k€	4,950	3,024	14,481	**23,699**
Employees [1]					
Employees (m/f) [2]	number	71	101	148	**205**
Sales per capita [3]	in k€	1,778	1,352	1,915	**2,392**
Phoenix SonnenAktie® [1]					
No-par bearer shares	units	5,525,000	6,077,000	6,077,000	**6,684,500**
Earnings per share (basic)	in €	0.92	0.55	2.38	**3.63**
Earnings per share (diluted)	in €	0.92	0.55	2.38	**3.62**
Closing price at year-end	in €	15.88	16.00	41.00	**25.13**
Market capitalisation	in k€	87,737	97,232	249,157	**167,981**

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

TOTAL SALES REVENUE

in k€

2005	111,116
2006	118,994
2007	260,118
2008	402,494

QUARTERLY SALES DEVELOPMENT 2008

in k€

Q1	41,584
Q2	110,222
Q3	149,323
Q4	101,365

REVENUE SHARE BY BUSINESS SEGMENT

%

	Components & Systems Germany	Components & Systems International	Power Plants Germany	Power Plants International
2005	60.4	5.5	34.1	
2006	46.6	6.3	41.5	5.6
2007	44.3	5.4	28.6	21.7
2008	45.5	7.8	14.8	31.9

REVENUE PER CAPITA

in k€

2005	1,778
2006	1,352
2007	1,915
2008	2,392

EBIT

in k€

2005	7,711
2006	4,786
2007	22,259
2008	33,823

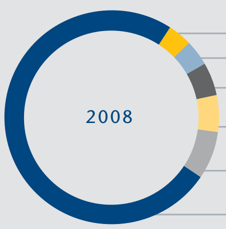
EQUITY

in k€

2005	23,244
2006	33,346
2007	47,326
2008	89,311

SHAREHOLDER STRUCTURE

%

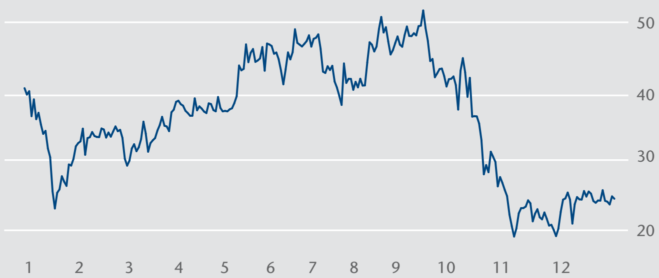


Allianz SE	3.74
Pioneer Asset Management S.A.	3.93
JPMorgan	4.99
M.M. Warburg-LuxInvest S.A.	5.54
Board of Directors & Supervisory Board	7.49
Other free float	74.31

Data including share voting rights assigned pursuant to Section 22 of the German Securities Trading Act

SHARE PRICE PERFORMANCE

in €



Low: 27/10/2008 € 19.61

High: 02/09/2008 € 52.65

Phoenix Solar AG – Annual Report 2008

Making connections – this is what we do at Phoenix Solar as a leading system integrator in photovoltaics. We know which components go together best. We strive to achieve an optimal synthesis between technology and local conditions. And we take care that there is a balance between economy and ecology in our photovoltaic systems. So whichever way you look at it:

Put Phoenix Solar and photovoltaics together and you have a reliable system.

Phoenix Solar 2008

Q1

JANUARY
Renaming of Phönix Projekt & Service AG, a wholly-owned subsidiary of Phoenix Solar AG, as Phoenix Solar Energy Investments AG

FEBRUARY
Signing of a framework agreement with module manufacturer Signet Solar on the delivery of thin-film modules with a peak power output of around 50 megawatt up until 2011

Phoenix Solar Energy Investments AG signs project development agreement worth around EUR 100 million with Bürgerservice Trier GmbH

MARCH
Admission of Phoenix Solar AG to the German TecDAX technology index

Phoenix Solar AG wins its first contract with a US investor for the construction of two photovoltaic power plants in Spain

Q2

APRIL
Phoenix Solar AG receives around EUR 20.8 million from a capital increase

Inauguration of La Solana Solar Park, Spain, with a peak power output of 6.5 megawatt

MAY
Conferring of the Intersolar AWARD 2008 for the innovative Phoenix Power Bridge® assembly system

JUNE
Founding of Phoenix Solar E.P.E., a subsidiary with headquarters in Athens, Greece

Annual General Meeting of Phoenix Solar AG approves the proposal to double dividend to EUR 0.20 per share

Q3

JULY

Founding of Phoenix Solar Pty Ltd, a subsidiary with headquarters in Adelaide, Australia

Completion of the largest photovoltaic power plant in Greece, with a peak power output of one megawatt, in the vicinity of Pontoiraklia

Framework agreement with CIGS module manufacturer Solyndra Inc., worth EUR 450 million

Raising of the participating interest in the Italian system integrator Renewable Energies Development 2002 S.r.l. (RED 2002) to 100 percent

AUGUST

Appointing of Ulrich Reidenbach as a regular member of the Board of Directors responsible for sales

SEPTEMBER

The Phoenix SonnenAktie®, the share of Phoenix Solar AG, reaches its all-time high at EUR 52.65 on 2 September

Installation of a pilot photovoltaic system with a peak power output of 6.4 kilowatt in the “Desert Knowledge Australia Solar Centre“ in Alice Springs, Australia

Q4

OCTOBER

Signing of an agreement for the construction of a building-integrated photovoltaic system with a peak power output of 181 kilowatt for Lonza Biologics Tuas Pte Ltd in Singapore

Construction of a photovoltaic system on the roof of the German School in Sydney, Australia

NOVEMBER

Agreement on syndicated loan amounting to EUR 150 million

Beginning of construction work on a 2.3 megawatt photovoltaic power plant on EvoBus GmbH’s production facilities on behalf of Stadtwerke Ulm

DECEMBER

Completion of a photovoltaic power plant with a peak power output of 5.6 megawatt in Hasborn, Rhineland Palatinate

Dear Shareholders,

Companies seldom hold back when it comes to good figures. In view of the financial crisis, however, which has meanwhile developed into a global economic crisis, we hesitate to make figures our first topic here.

It comes as no surprise that the solar industry has also been affected by the general crisis in the financial markets. Particularly in respect of large solar power plants, which is one of the core businesses of the Phoenix Solar Group, financing sources more or less dried up in the fourth quarter of 2008. For reasons known, large commercial banks and Landesbanks, hitherto the main providers of capital for large photovoltaic power plants, held back in the financing of capital-intensive projects. In addition, the equity ratios required were higher and the interest rates were rising, which made investments less attractive. This has meant the completion of the large power plants in Germany in December for Phoenix Solar AG, and an uncertain start to construction work on new power plants.

Owing to the financial crisis, many companies were experiencing difficulties in financing their growth. Phoenix Solar AG has, however, been successful in decoupling from the trend and concluded an agreement in November 2008 on a syndicated loan of EUR 150 million. Together with the capital increase in April 2008, which generated funds of more than EUR 20 million, the restructuring has created a strong fundament for our corporate finance.

Alongside our sound financial base, improved political framework conditions lead us to be optimistic that Phoenix Solar and photovoltaics will remain on a growth path. For instance, an EU guideline approved at the end of 2008 has now established binding goals for the expansion of renewable energies, goals which have been set not only at the EU level but also for each individual country. Germany, for example, is to raise the proportion of renewable energies from 5.8 percent in 2005 to 18 percent by the year 2020. As these goals must be linked to a concrete plan of action which each country is obliged to submit by 30 June 2010, and which will be reviewed in terms of goals achieved every two years, significant growth impetus in renewable energies can be expected throughout the EU. In addition, with the changes under President Obama, there is likely to be a reversal in the energy policy of the USA, with a stronger focus on promoting renewable energies. Irrespective of this, the city of Gainesville (Florida) has passed a law on feed-in tariffs modelled on its German counterpart, and there are signs that other US cities are likely to follow this initiative. There may be new market opportunities particularly in the “Sunshine State” of Florida for German solar technology, and thus also for Phoenix Solar.

And now from the general to the more specific: what you have in front of you is the Annual Report and the 2008 figures of Phoenix Solar. The year 2007 is no longer the best year in the history of the company – it has been ousted by 2008. Revenues, which posted EUR 260 million in 2007, climbed to a new record EUR 402 million, with EBIT also rising to a record EUR 33.8 million, up from EUR 22.3 million. What is particularly remarkable about these results is the fact that, despite the economic crisis and the difficult fourth quarter, we have nonetheless succeeded in outperforming our guidance once more. And this is not something that can be taken for granted. We owe this to the motivation and commitment of our employees who we wish to thank for this outstanding performance.

Evidently our commitment to photovoltaics is being rewarded in 2009 as well. The year got off to a good start for Phoenix Solar AG anyway. Seemingly the backlog in the financing of large power plants is gradually easing. Landesbanks and major banks are slowly returning to project financing, and a pleasing development is that local savings banks are also now willing to finance megawatt plants by themselves. With a high level of orders on hand at the start of the year and new orders placed in January and February 2009 which exceeded the previous year's figures, Phoenix Solar now looks with confidence to the future – so confidently that the Board of Directors, as one of the few in the sector, has already released positive guidance for 2009. Consolidated revenues of around EUR 520 million and a Group EBIT of around EUR 31 million are anticipated.

We are just as reluctant to use figures to end this letter to you, as our valued shareholders, as we were to start with them. Instead, we would like to thank all those of you for your efforts in ensuring that our investor relations work won the B.I.R.D. 2008, the prize awarded for Germany's best investor relations work in the TecDAX for private shareholders. We were delighted by this tribute which has shown that Phoenix Solar AG is on the right track – and not only in terms of its figures.

With sunny greetings,

Dr. Andreas Hänel
(Chief Executive Officer)

Interviews with the Board of Directors of Phoenix Solar AG

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

Dr. Andreas Hänel
Chief Executive Officer
Born in 1958

Responsible for Strategy & Business Development, Corporate Communications, Corporate Infrastructure, European Sales (until 30 November 2008) and Marketing (until 31 March 2009)

Dr. Hänel, over the last ten years photovoltaics, which formerly elicited a dismissive smile, has become an extremely successful industry. Do you have a vision of where photovoltaics and Phoenix Solar should be in ten years time?

Ten years ago photovoltaics was still at a fledgling stage: The market was as small as the companies in it, the first few of which took the courageous step towards stock exchange listing. Today photovoltaics makes a notable contribution to the supply of electricity, although this in no way reflects the potential that photovoltaics harbours. Phoenix Solar's vision is a succinct expression of this potential: to secure a higher standard of living by tapping the inexhaustible power of the sun and shaping the energy supply of today and tomorrow. We are only a few years away from the day when photovoltaics will be a competitive alternative to conventional energy as well as other sources of renewable energy. Achieving so-called grid parity is one of the greatest goals of Phoenix Solar AG, and one which we consider to be realistic given the progress in solar technology, accompanied by a steady decline in costs and prices. Phoenix Solar wants to contribute to making photovoltaics competitive and intends to have become one of the world's most important solar companies in ten years time. We have the potential for it!

Ulrich Reidenbach
Chief Sales Officer
Born in 1959

Responsible for Sales (since 1 December 2008) and Marketing (since 1 April 2009) of all business units

Mr. Reidenbach, what are your priorities in sales activities at Phoenix Solar to achieve this goal?

The most important task in the area of sales will be the transition the company has to make from a market dominated by supply to one determined by demand. In essence, this means that customer orientation will play an even more important role. The good international alignment of Phoenix Solar has set in place the preconditions for this to take place smoothly, as we are already active in important markets. Nonetheless it is important to build up our position in the respective markets and to press ahead with the internationalisation of our business. To this end, Phoenix Solar's business model is being reviewed for each country specifically and, if necessary, adjusted according to the requirements.

Dr. Murray Cameron
Chief Operations Officer
Born in 1962

Responsible for Procurement & Purchasing, Logistics, Asian Sales (until 30 November 2008) and Public & Governmental Affairs

Dr. Cameron, some of Phoenix Solar's important suppliers are based in the USA. You have already carried out projects in cooperation with American investors in Europe. There is now a political paradigm shift taking place in the USA. Is it only a question of time until Phoenix Solar also builds photovoltaic power plants in America?

We have already completed the first plant producing solar energy with a peak output of 20 kilowatt. This project was carried out jointly in 2007 with First Solar and Xantrex on the roof of the German International School of Silicon Valley. Much is happening on the political front in the USA at the moment. The US government has already approved programmes which are certain to accelerate the expansion of photovoltaics, and the federal states and local authorities are also planning and developing their own solar initiatives. We are also taking an active part in the discussions. What is most exciting about this development is that it is starting off with exactly the same subsidy measures, namely feed-in tariffs, as were introduced and started the process off in the German market more than ten years ago. I am convinced that the USA will be the world's largest photovoltaic market in three to four years. And is there anything to stop Phoenix Solar, with its competence in system technology, contributing to this growth through building solar power plants?

Manfred Bächler
Chief Technology Officer
Born in 1963

Responsible for Power Plant Construction, Technology & Innovation, Quality Assurance and IT Services

Mr. Bächler, photovoltaic technology has made huge progress in recent years. For instance, alongside crystalline silicon modules, there are modules manufactured with various thin-film technologies in the market. Moreover, a growing number of suppliers are thronging the market. How do you select new products at Phoenix Solar?

When making a decision for new products or manufacturers our approach is systematic: We look at the candidates based on a series of criteria. Of special importance are naturally technical features such as efficiency or the specific dimensions of the module and its quality. We pay very special attention to the potential for development and for cutting costs of the technology before integrating it into our portfolio. In addition, we look at factors such as the reputation and experience of the manufacturer or the compatibility of new products with our existing product range and with the requirements of our customers. The innovations must, after all, be attractive to them, such as in the case of our new thin-film module by Solyndra®. Most of the customers of Phoenix Solar are solar installers or electricians; we only have very few roofers. To make it possible for our customers to install on flat roof surfaces without typical tiling work we were on the lookout for a module which can be mounted on lightweight construction with a minimum amount of additional weight without interference to the roof cladding. The Solyndra® module fulfils these criteria.

Sabine Kauper
Chief Financial Officer
Born in 1968

Responsible for Group Accounting & Taxes, Controlling, Treasury, Human Resources & Organisational Development, Law and Contract Management, Internal Audit and Compliance

Ms. Kauper, in the middle of the financial crisis, in November 2008, you concluded a syndicated loan of a considerable size. How important is this agreement for Phoenix Solar?

We are glad and also a little proud that we were able to arrange this loan even in such turbulent times. It is a clear vote of confidence if banks are prepared to give us money to finance further growth in the middle of the global financial crisis. The agreement is for a loan worth EUR 150 million, with the term of three years. It has given Phoenix Solar a sound financial base which has been used to restructure our corporate financing and secures the capital needed for further growth in the medium term. We are now in the extremely fortunate position of being able to forge ahead with international growth under such circumstances which, as with any crisis situation, may also open up new opportunities.

Phoenix SonnenAktie® (share of Phoenix Solar AG)

STOCK MARKET ENVIRONMENT

In 2008, the stock exchange environment was greatly affected by an international financial and economic crisis, which wiped much off the value of equities in the global stock markets. As a result, the German indices also closed the year at their lowest level for many years. The DAX, Germany's leading index, shed 40 percent of its value over the period from January to December. The trend on the TecDAX, Germany's technology index, which in 2008 comprised ten companies allocated to the solar sector, was similarly disheartening: Its loss came to as much as 48 percent over the course of the year.

At the start of 2008, the imminent threat of a cooling US economy, compounded with the consequences of the American subprime crisis, put pressure on the stock exchanges. Share prices tumbled the world over. Fears of a decline in the global economy and rising inflation rates exacerbated the trend. Between mid-March and mid-May, there was a significant recovery which was then followed by uncertainty and volatile share prices on the stock exchanges during the summer months. Strong oil prices, negative consumer and business sentiment data, as well as a slew of reports on companies entrammelled in the US subprime and financial crisis, fuelled anxiety in already jittery markets. Against this background, the decision of the European Central Bank (ECB) to raise the key rate to 4.25 percent in response to fears about inflation did not result in the hoped for stability.

At the start of September, the tense situation was exacerbated through the collapse of the investment bank Lehman Brothers and subsequently deteriorated to its worst state to date. Other banks and insurance companies, also outside the USA, began to experience problems. The problems of financial institutions triggered a global crisis of confidence, in particular in the banking sector. The consequence was partly plummeting share prices across all sectors. As early as September, a number of governments made financial aid available to the companies most affected. To cushion the spreading of the crisis to the global economy, politicians approved economic aid packages which went into the billions. The impact of the financial and banking crisis on the real economy had already started to emerge by the end of 2008. One of the sectors hardest hit was the automotive industry, along with the raw materials market which saw strong downward corrections. At the end of November, the oil price fell below the USD 40 threshold having been quoted at nearly USD 150 in the summer. To counteract the effects of the crisis, the Federal Reserve Bank lowered key rates to a corridor of between 0.0 and 0.25 percent. In November, the ECB lowered the key rates for the first time, a measure then followed by another record cut of 75 base points to 2.5 percent in December.

The results of several solar sector companies were poorer than expected in the third quarter, and there were a number of profit warnings by individual companies. Owing to the general situation in the capital markets, analysts downgraded the companies, including Phoenix Solar AG. Whereas, on 31 December 2008, the Phoenix SonnenAktie® (share of Phoenix Solar AG) was able to retain around 60 percent of its price level at the start of the year, other solar shares included in the TecDAX ranged between 20 and 40 percent of their value at the beginning of the year, the worst individual case being an equity with 88 percent wiped off its value. The Renewable Energy Industrial Index (RENIXX® World), the industry's indicator, recorded an annual minus of 63.6 percent.* The German Nature Share Index (NAI) shed 42.5 percent in the period under review.

SHARE PRICE PERFORMANCE

Even though the Phoenix SonnenAktie® sustained losses in the difficult capital market environment in 2008, it nonetheless significantly outperformed the sector and the TecDAX. Having closed the year at EUR 25.13 (XETRA trading platform), following on from EUR 41.00 at year-end 2007, the share price suffered a decline of 39 percent. Market capitalisation came to EUR 168 million on 31 December 2008 (2007: EUR 249 million). Market participants traded an overall 17 million units with a volume of EUR 627 million.

In the first quarter, especially in January, the price of the Phoenix SonnenAktie® came under pressure and fell temporarily by more than 40 percent. It reached its low point in the first quarter on 21 January 2008 when it posted EUR 23.71. This was followed by a sharp uptrend. By March the Phoenix SonnenAktie® had recovered and came close to the high level seen at the start of the year. In the middle of the second quarter, the price took the important hurdle of EUR 40 (13 May). With a plus of 19.5 percent in May alone, the share price was even the third strongest performer in the TecDAX in this month. The share price continued to rise steadily to reach its highest point of EUR 49.90 (17 June). Then, at the start of the second half of the year, it slid initially to EUR 38.84 (15 July). The very next day there was another sharp uptrend in the share price. The excellent half-year figures presented in August supported this trend. The share price reached a level of EUR 52.65 on 2 September 2008, which is its highest level since being listed on the stock market. The Phoenix SonnenAktie® also initially succeeded in escaping the impact of poor economic data from the USA. Subsequently, however, it was unable to decouple from the general weakness on the global stock markets. The share price fell to its lowest point of EUR 19.61 on 27 October. The impact of the financial market crisis was at its strongest in October and caused the share price to tumble by 44.5 percent. The turnover volume came to just under 2.8 million units in this month, which is almost double the annual

* Source: Internationales Wirtschaftsforum Regenerative Energien (IWR)

average (1.4 million units). After a short-lived recovery, the share price dipped temporarily below the EUR 20 mark in November and closed at EUR 25.13 on the last trading day.

ADMISSION TO THE TECDAX

In March, the composition of the share indices of Deutsche Börse AG was reviewed on a rotation basis. The share of Phoenix Solar AG was subsequently admitted to the TecDax, Germany's technology index, on 25 March 2008. The index comprises 30 of the largest companies, measured by market capitalisation and turnover, from the technology sectors of the Frankfurt Stock Exchange's Prime Standard below the DAX.

Admission to the TecDAX gave the Phoenix SonnenAktie® additional impetus. In terms of its market capitalisation, the share climbed eleven places in the index ranking, advancing from 29th to 18th position, over the period from 31 March to 31 December 2008. In terms of its trading volume, Phoenix Solar AG had leapt 15 places, from 32nd to 17th position, by the end of the year.

CAPITAL INCREASE

On 2 April 2008, the company executed a capital increase of just under ten percent of the share capital. The 2006 Approved Capital was partly utilised for this purpose. The share capital rose by EUR 607,500, from EUR 6,077,000 to currently EUR 6,684,500. Shareholders' subscription rights were excluded in order to enable a cost effective and swift placement. The new shares were placed at a price of EUR 34.25 with a number of eligible investors in Germany. On 7 April 2008, the capital increase was entered into the Commercial Register and the shares were admitted to trading. Phoenix Solar AG received gross issuing proceeds of EUR 20,806,875 from the capital increase. The funds will be used to finance planned company growth and to further the internationalisation of the Group's business. The transaction was accompanied by HSBC Trinkaus & Burkhardt AG as Lead Manager and Sole Bookrunner.

ANNUAL GENERAL MEETING

The regular Annual General Meeting of Phoenix Solar AG took place on 3 June 2008 in the Event Forum, Fürstenfeldbruck. The shareholders approved all items on the agenda by a large majority of between 99.94 and 100 percent. Presence during the process of resolution came to 31.09 percent of the share capital (2007: 22.74 percent). Among other issues, the shareholders approved the payment of dividend.

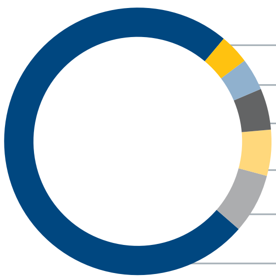
DIVIDEND

Phoenix Solar AG pursues a shareholder-oriented dividend policy which accords with company growth and the respective business situation. Dividend was paid for the first time in the year 2007 for the financial year 2006. Dividend distribution for the financial year 2007 has doubled to EUR 0.20 per share. Dividend was disbursed on 4 June 2008 via a paying and depositary agent. With a gross dividend distribution of EUR 1,329,700, the payout ratio measured against the annual net income of Phoenix Solar AG – pursuant to the German Commercial Code (HGB) – comes to more than 37 percent. The Board of Directors and the Supervisory Board plans to put forward a proposal to the Annual General Meeting for another dividend increase for the financial year 2008 (EUR 0.30 per share).

SHAREHOLDER STRUCTURE

Over the course of the year, there were a number of notifications submitted pursuant to Sections 21 et. seq. of the German Securities Trading Act (WpHG) in which shareholders indicated that their holdings had reached, exceeded or fallen below the statutory thresholds requiring reporting. The resulting shareholder structure as per 31 December 2008 is shown below:

SHAREHOLDER STRUCTURE



	%
Allianz SE	3.74
Pioneer Asset Management S.A.	3.93
JPMorgan	4.99
M.M. Warburg LuxInvest S.A.	5.54
Board of Directors & Supervisory Board	7.49
Free float	74.31

Data including share voting rights assigned pursuant to Section 22 of the German Securities Trading Act

INVESTOR RELATIONS

Active and open financial communication is the hallmark of Phoenix Solar AG's communication policy. Key issues are the financial position, the strategy and the outlook of the Group. In 2008, the main topics and focus of investor relations work were the capital increase in April and the crisis in the global financial markets in the second half of the year.

The Internet plays an important role in financial communication. Alongside a great deal of fundamental information about the share and the company, Phoenix Solar also ensures that recordings of the telephone conferences which take place once a quarter on the respective financial reports and accompanying presentations are made available on the company website. The range of information posted on the website at http://www.phoenixsolar.com/InvestorRelations/ is being developed on an ongoing basis.

Phoenix Solar AG took part in eight investor conferences in Germany and abroad in the financial year 2008. In January, the Board of Directors presented the Group at the 3rd HSBC Small/Mid Cap SRI Conference organised by HSBC Trinkaus & Burkhardt in Frankfurt am Main, in February at the Alternative Energies Conference of Landsbanki Kepler in Paris, and then at the Third Annual Clean Technology and Renewables Conference arranged by the investment bank Piper Jaffray in New York. In March, the Group also participated in the Growth & Responsibility Conference 2008 of the Commerzbank in Frankfurt am Main. In May, Phoenix Solar AG presented itself to private and institutional investors at the M:access Conference of Börse

München (Munich Stock Exchange). The company was presented at the MainFirst Bank Intersolar Investor Conference 2008, at the same time as the Munich Intersolar trade fair held in June. In September, the company took part in a panel discussion of Cowen and Company's Clean Energy Conference, New York, and presented itself at the UniCredit German Investment Conference 2008 in Munich.

Together with a number of brokers, Phoenix Solar made contact with investors or stepped up the exchange of information within in the context of road shows. Road shows in Germany took place in Frankfurt, Munich and Dusseldorf in 2008. In addition, the company visited the European financial centres in London, Edinburgh, Zurich, Vienna, Amsterdam, Rotterdam and The Hague, and outside the EU in Boston and Toronto.

Along with conferences and road shows, there were many group and one-to-one discussions at company headquarters in Sulzemoos. Many of the investors and analysts who participated in a photovoltaics conference in Munich at the start of April took the opportunity of visiting company headquarters. The Intersolar trade fair, held for the first time in Munich in June, attracted many international investors and analysts who made appointments for meetings at the Phoenix Solar AG trade fair stand. More discussions took place at the 23rd European Photovoltaic Solar Energy Conference and Exhibition in the Spanish city of Valencia. Management and Investor Relations were available to meet with interested parties at the 9th Forum Solarpraxis in Berlin.

ANALYST COVERAGE

Seven banks took up analyst coverage of Phoenix Solar AG in 2008, bringing the number of analysts consistently reporting on the company to 14. June saw the first American bank, namely Pacific Crest based in Portland, Oregon, join the group of analysts. First company reports were made by UniCredit (Munich), FBR Capital Markets (San Francisco, USA), MainFirst Bank (Frankfurt am Main), DEXIA (Brussels, Belgium), Viscardi (Munich) and BHF-BANK (Frankfurt am Main).

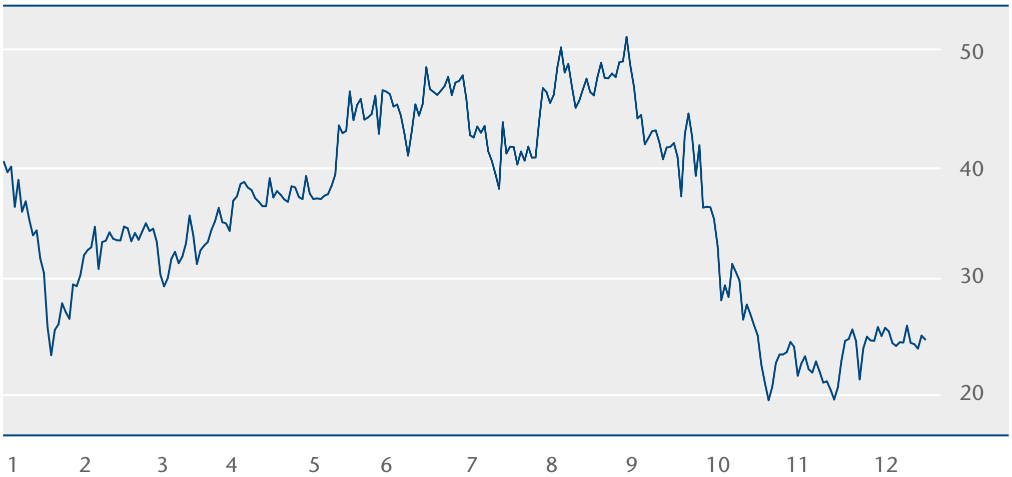
KEY FINANCIAL DATA		Q1	Q2	Q3	Q4	2008	2007
Number of shares	Units	6,077,000	6,684,500	6,684,500	6,684,500	6,684,500	6,077,000
Market capitalisation	in €	216,888,130	325,200,925	286,096,600	167,981,485	167,981,485	249,157,000
Year-end closing price (XETRA)	in €	35.69	48.65	42.80	25.13	25.13	41.00
High	in €	41.29	49.90	52.65	37.20	52.65	41.00
Low	in €	23.71	35.01	38.16	19.61	19.61	15.75
Trading volume	Units	4,014,810	3,824,076	4,288,356	5,214,497	17,341,739	10,063,601
Revenues	in €	131,431,665	164,174,128	193,039,472	138,036,554	626,681,819	235,842,406
Dividend	in €	–	–	–	–	0.30 (1)	0.20
Earnings per share (EPS)	in €	0.10	1.27	3.27	3.63	3.63 (2) 3.62 (3)	2.38 (2) 2.38 (3)

(1) dividend proposal
(2) basic EPS
(3) diluted EPS

KEY DATA

Securities identification number	A0BVU9
International securities identification number	DE000A0BVU93
Ticker symbol	PS4
Share class	No-par bearer share
Number of shares as per 31/12/2008	6,684,500 units
Share capital on 31/12/2008	€ 6,684,500
Stock market segment	Official Market
Transparency standard	Prime Standard
Indices	TecDAX, ÖkoDAX, CDAX, HDAX, DAX International 100, Midcap Market, Technology All Share, Prime All Share, various DAX sub-indices
Stock markets	Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin / Bremen, Dusseldorf, Hamburg, Hannover, XETRA
Sector / industry sector	Industrial goods / Renewable energies
Designated sponsor	HSBC Trinkaus & Burkhardt AG

SHARE PRICE PERFORMANCE in the period from 1 January – 31 December 2008 in €



Lowest price	27/10/2008	€ 19.61
Highest price	02/09/2008	€ 52.65

Report of the Supervisory Board

J. Michael Fischl, Chairman of the Supervisory Board

Report of the Supervisory Board to the regular Annual General Meeting on its audit of the financial statements as at 31 December 2008, 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 German Stock Corporation Act (AktG).

GENERAL INFORMATION

The Supervisory Board held ten regular meetings in the presence of the Board of Directors in the financial year. In doing so, it fulfilled the tasks incumbent on it under the law, the Articles of Association and the bylaws of the company. In the case of urgent matters, the Supervisory Board passed resolutions by way of telephone conference or by written circular procedure, whenever necessary.

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

The Audit Committee held four meetings, three of which in the presence of the independent auditor, established key audit areas and discussed interim reports. In addition, it addressed issues concerning accounting and risk management. The Audit Committee members are Prof. Dr. Thomas Zinser (Chairman), Ulrich Th. Hirsch and Dr. Patrick Schweisthal.

The Personnel Committee is made up of the following members: J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle. It met three times in the period under review and focused on issues pertaining to monitoring the achieving of goals by the members of the Board of Directors. Moreover, preparations were made to appoint a new member to the Board of Directors.

In its meeting in August 2008, the Supervisory Board appointed Mr. Ulrich Reidenbach as the member of the Board of Directors responsible for sales.

The chairmen 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 the Munich-based auditing company AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft on 21 July 2008 pursuant to Section 111 para. 2, sentence 3 of the German Stock Corporation Act (AktG) and in accordance with Section 315a of the German Commercial Code (HGB), to audit the consolidated financial statements and the management report on the basis of the standards laid down under IFRS/IAS. The independent auditor submitted an Auditor's Independence Declaration to the Audit Committee on 31 March 2008 pursuant to Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

Based on the resolution dated 7 December 2008, a Nomination Committee was set up in accordance with the recommendations of the German Corporate Governance Code. The committee members are J. Michael Fischl as Chairman, Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. This committee will take up its duties in the current financial year 2009.

In preparation for the Annual General Meeting, the Supervisory Board deliberated on its efficiency. Key points of discussion included work in the committees and the adjustment of the regulations pertaining to the remuneration of the Supervisory Board which will be put forward for resolution to the Annual General Meeting and is described in detail in the remuneration report.

REPORT ON THE ACTIVITIES ASSOCIATED WITH THE SUPERVISION OF THE BOARD OF DIRECTORS DURING THE COURSE OF THE FINANCIAL YEAR

The Supervisory Board consulted regularly and supervised the activities of the Board of Directors. The supervision of management was made first and foremost by taking cognizance of regular written and oral reports by the Board of Directors and discussion of these reports. The Board of Directors reported in a timely fashion on the course of business, the 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 thus involved in decisions of fundamental importance for the Group.

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

- development of the corporate strategy and reconciliation of the impact on corporate planning as well as on the organisation structure and organisation of workflows,
- appointment of a Chief Sales Officer as a further member of the Board of Directors,
- integration of the Italian subsidiary RED 2002 S.r.l. by acquiring the remaining shares in the company,
- 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) and the information gained therefrom,
- monitoring of the stock market value of the company,
- cognizance of the development of instruments designed to optimise procurement and inventory management,
- human resource development within the company,
- discussion on the progress made by individual business segments and the subsidiaries,
- concepts for the market development and sales strategy,
- review and discussion of major contractual problems,
- detailed discussions and passing of resolutions on expansion measures.

The documentation pertaining to resolutions prepared by the Board of Directors was approved by the Supervisory Board after thorough examination and detailed discussion.

Conflicts of interest in respect of the members of Board of Directors and the Supervisory Board which must be reported without delay to the Supervisory Board and of which the Annual General Meeting is to be informed did not arise.

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 acceptance of the following immediately upon their completion and in good time before the meeting of the committee:

- the annual financial statements and the proposal for the appropriation of profit by the Board of Directors for the financial year 2008,
- the report by the Board of Directors on the situation of the company in 2008,
- the consolidated financial statements for the financial year 2008 pursuant to the standards laid down under IFRS/IAS,
- the report by the Board of Directors on the situation of the Group in 2008.

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

In discussions of the Audit Committee with the Chief Financial Officer and the independent auditor, as well as through questioning and discussion with the independent auditor after its report of the main findings of its audit in the financial statements meeting on 25 March 2009, in which the Board of Directors participated and explained the financial statements it had drawn up as well as the risk management system, the Supervisory Board examined the annual financial statements and the management reports submitted and is convinced of the following:

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

The Supervisory Board has ratified the financial statements prepared by the Board of Directors of the company, which are thereby adopted. The Supervisory Board ratified the consolidated financial statements and the Management Report on the Group as per 31 December 2008. The proposal of the Board of Directors to use unappropriated retained earnings to pay a dividend of EUR 0.30 per share, which comes to a total of EUR 2,005,350.00 on the dividend-bearing share capital of EUR 6,684,500 to the shareholders and to carry forward the balance to new account was approved by the Supervisory Board.

In its meeting on 25 March 2009, and following consultation with the independent auditor pursuant to Section 171 para. 2 German Stock Corporation Act, the Supervisory Board resolved upon the following statement:

> *Based on its own examination, the Supervisory Board accedes to the results of the audit carried out on the annual financial statements and the Management Report for 2008 at company level and at Group level by the independent auditor who has issued an 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 2008 were ratified by the Supervisory Board in its meeting on 25 March 2009, and are thereby adopted.*
>
> *Moreover, the Supervisory Board approves the proposal of the Board of Directors to put a resolution to the Annual General Meeting for payment of dividend from the unappropriated retained earnings of EUR 32,047,015.48 of EUR 0.30 per share and carry forward the remaining balance of EUR 30,041,665.48 to new account.*
>
> *Furthermore, the Supervisory Board adopts the consolidated financial statements as at 31 December 2008 and the Management Report on the Group for the financial year 2008.*

Sulzemoos, 25 March 2009

J. Michael Fischl
(Chairman of the Supervisory Board)

CO_2 emissions down by 1,930 kilometres

In 2008, Phoenix Solar laid around 1,930 kilometres of cables for solar power plants, which is another commendable step on the way to achieving a sustainable supply of energy. That this distance more or less corresponds to the stretch from Munich to Madrid was also symbolic: After Germany, Spain was the second most important market for our photovoltaic systems in 2008.

Corporate Governance Report

The aim of actions taken by the Board of Directors and the Supervisory Board of Phoenix Solar AG is to raise the enterprise value of Phoenix Solar AG on a long-term basis. A value-oriented, responsible and transparent management of the company fosters the trust of the shareholders and stakeholders. The processes and structures laid down in the German Corporate Governance Code (GCGC, or simply Code) ensure efficiency in the carrying out of management duties and prescribe control mechanisms for their supervision. With the exception of a few deviations, Phoenix Solar AG has adopted the recommendations of the GCGC and substantiates any departures therefrom. The company fulfils the requirements of the capital market and the public at large for transparency in open and active dialogue. This Corporate Governance Report, prepared by the Board of Directors and the Supervisory Board in accordance with Item 3.10 of the Code, describes the main corporate governance components of the company and explains any departures from the recommendations of the Code.

AMENDMENTS TO THE GERMAN CORPORATE GOVERNANCE CODE

The GCGC was reviewed and amendments were made to a number of items by the Government Commission of the German Corporate Governance Code in the version dated 6 June 2008. In the current version of the Code, the Commission has placed more emphasis on the role of the entire supervisory board in respect of the remuneration system of management boards. Whereas, up until now, the relevant supervisory board committee only deliberated on the structure of the remuneration system, the recommendation is that the board should now decide on issues relating to the remuneration system for board members, including the salient contractual components. The Supervisory Board of Phoenix Solar AG had already practised this prior to the amendment being made to the Code. The suggestions introduced in 2007 for capping payments made to the members of the Board of Directors in the event of an early termination of their activities have now been enacted in recommendations made in the current

Code version. The current contracts for the members of the Board of Directors at Phoenix Solar AG do not generally provide for any commitments in respect of severance payments. In 2008, a change of control clause was incorporated into the contracts of two members of the Board of Directors to take account of the event of a change of control. The code's recommendation in this case is for a cap of three years' worth of remuneration. The Code was extended in the area of accounting. Half-yearly and quarterly reports are to be deliberated on by the Supervisory Board or the Audit Committee, together with the Board of Directors, before they are published. Prior to the introduction of this new recommendation, the interim reports of Phoenix Solar AG were already being discussed in the regular meetings of the Audit Committee prior to being released.

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

The Board of Directors and the Supervisory Board form the dual management structure of Phoenix Solar AG and work together with the common aim of raising enterprise value on a sustainable basis.

In the financial year ended, the Supervisory Board has extended the Board of Directors to five members and has concentrated the sales operations of the company into a new department headed by the Chief Sales Officer. The Chief Sales Officer is responsible for the global sales of the Components & Systems and Power Plants segments. In accordance with the recommendation of the Code, Ulrich Reidenbach, as the new Board member, has been appointed for a term of office of less than five years.

The members of the Board of Directors head up and manage the company under their own responsibility. The Board of Directors develops the corporate strategy and initiates measures for its implementation at the operational level. A clear allocation of tasks determines the competences of the individual members of the Board of Directors. The Board of Directors meets regularly once a week and, in addition, remains in close contact. In the year 2008 as well, it has fulfilled its obligations of informing the Supervisory Board regularly and in a timely and comprehensive fashion on the issues of strategy, planning, business development, risk management and compliance. There were no conflicts of interest ascertained in respect of the members of the Board of Directors in the financial year ended.

The Supervisory Board consists of six members who supervise and advise the Board of Directors in the management of the company. It does not have any representatives of the employees as the number of employees of Phoenix Solar AG is below the threshold defined by law for co-determination in supervisory boards. The Supervisory Board agrees the strategy developed by the Board of Directors and keeps itself informed of the status of strategy implementation. Moreover, finance and investment planning in the coming financial year and medium-term planning is also submitted to the Supervisory Board. Outside of the regular meetings, the Chairman of the Supervisory Board in particular engages in ongoing dialogue with the Chairman of the Board of Directors on the issues of strategy, business development and risk management.

The Supervisory Board concerned itself with methods for reviewing the efficiency of its activities in the year 2008. Detailed defining of these methods and final approval has been scheduled for 2009.

Members of the Supervisory Board do not maintain personal or business relationships with the company which could give rise to a conflict of interest, thereby putting the independency of the Supervisory Board at risk. There were no conflicts of interest in the financial year ended.

THE COMMITTEES OF THE SUPERVISORY BOARD

To improve the efficiency of its work, the Supervisory Board of Phoenix Solar AG has formed three committees. In supplementation of the Audit and Personnel Committees, the Supervisory Board followed the recommendation of the GCGC at the end of the financial year 2008 and set up a Nomination Committee.

The Audit Committee has three members: Prof. Dr. Thomas Zinser (Chairman), Ulrich Th. Hirsch and Dr. Patrick Schweisthal. The committee is tasked with defining the key audit areas in respect of the annual accounts with the independent auditor and with discussion of interim reports. The committee met four times for this purpose in the financial year 2008, namely on 28 February, 4 and 31 July and on 29 October. On the initiative of the Audit Committee, the Supervisory Board has agreed with the independent auditor that the Chairman of the Audit Committee will be informed without delay if, during the audit, potential reasons for exclusion and prejudice arise and cannot be immediately resolved.

The Personnel Committee, similarly made up of three persons, is responsible for agreeing goals in the context of the performance-related remuneration of the members of the Board of Directors and for ascertaining the extent to which goals have been achieved. The preparation of contracts of the Board of Directors is also part of the responsibilities of the Personnel Committee. In the financial year ended, the committee met to discuss creating and filling the new position of a Chief Sales Officer. Beyond this, the committee developed measures to continually improve the communication between the executive bodies of the company. The committee consists of the persons of Mr. J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle. In the financial year 2008, the Personnel Committee met on 16 January and held four telephone conferences on 9 April, 25 June as well as on 8 and 22 October.

The newly founded Nomination Committee is made up of the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. The committee is responsible for putting forward proposals for suitable candidates to the Supervisory Board which it then presents to the Annual General Meeting for the purpose of electing new Supervisory Board members. In the financial year ended, the committee held a constituent meeting on 17 December 2008.

SHAREHOLDINGS AND DIRECTORS' DEALINGS

The securities transactions of the Board of Directors and the Supervisory Board in the shares of Phoenix Solar AG within the meaning of Section 15a (Directors' Dealings) of the German Securities Trading Act (WpHG) are listed in an updated form on the company's website at www.phoenixsolar.com under the heading Investor Relations, Phoenix Share, Directors'

Dealings. The insider guideline of Phoenix Solar AG provides for a blackout period which spans the time from the end of the period up until the publishing of the business results. The recommendation to insiders is that they should refrain from trading in the shares of the company during this period. External insiders, suppliers for instance, are also notified of this blackout period.

In the financial year 2008, a series of individual reportable and not reportable transactions within the meaning of Section 15a of the German Securities Trading Act (WpHG) were carried out by the Board of Directors and the Supervisory Board. The proportion of shares held by the Board of Directors and the Supervisory Board has fallen owing to the increase in share capital in April 2008. The table below gives an overview of shareholdings (direct and indirect) of the Board of Directors in the shares issued by the company:

BOARD OF DIRECTORS	UNITS		SHARE IN %	
Dr. Andreas Hänel	227,200	(242,200)	3.40	(3.99)
Manfred Bächler	183,530	(183,530)	2.75	(3.02)
Dr. Murray Cameron	69,750	(69,750)	1.04	(1.15)
Sabine Kauper	190	(0)	< 0.01	(0)
Ulrich Reidenbach	160	(0)	< 0.01	(0)

As per 31 December 2008. Previous year's figures in brackets.

At Supervisory Board level, Mr. Ulrich Fröhner (18,600 units, 0.28 percent) and Prof. Dr. Klaus Höfle (1,575 units, 0.02 percent) hold shares in the company. Supervisory Board member Dr. Patrick Schweisthal sold all his shares (5,450 units) in the financial year 2008. As per 31 December 2008, the Supervisory Board therefore holds 0.30 percent (2007: 0.53 percent) and the Board of Directors 7.19 percent (2007: 8.15 percent) in the share capital of the company. The members of both executive bodies together hold shares amounting to 7.49 percent in the company (2007: 8.68 percent).

REMUNERATION REPORT

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

TRANSPARENT AND ONGOING COMMUNICATION

Phoenix Solar AG informs all stakeholders, such as institutional investors, private investors, analysts, media representatives and employees (principle of fair disclosure) in an extensive and timely manner. Business developments and the earnings and financial position are reported on by the company in quarterly and annual reports as well as in telephone conferences. The accompanying presentations and audio recordings of the telephone conferences are available in English on the website of the company. The Articles of Association are also available on the website. The company reports on current events in the form of press releases. Phoenix Solar AG fosters direct contact with analysts and investors in the context of road shows, regular capital market and investor conferences as well as numerous one-to-one discussions with investors.

JOINT DECLARATION OF CONFORMITY

BY THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF PHOENIX SOLAR AG ON THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Board of Directors and the Supervisory Board are obliged once a year to declare that the recommendations of the Government Commission of the German Corporate Governance Code have been and will be complied with and 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 recommendations of the Government Commission of the German Corporate Governance Code in the version dated 6 June 2008 have been complied with and are complied with from the date when the last Declaration of Conformity was submitted, to the exception of the following:

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

in accordance with Item 3.8 of the Code
Phoenix Solar AG is of the opinion that a deductible for members of the Board of Directors and the Supervisory Board does not constitute an additional motivation for the members of these executive bodies to act diligently. Moreover, accountability under German criminal law of the individual executive body member for wilful negligence or betrayal of confidence remains unaffected, regardless of the form which the D&O insurance takes.

POSSIBILITY OF LIMITATION (CAP) IN RESPECT OF EXTRAORDINARY, UNFORESEEABLE DEVELOPMENTS IN PERFORMANCE-RELATED REMUNERATION COMPONENTS

in accordance with Item 4.2.3 of the Code
The share option programme of Phoenix Solar AG does not provide for any limitation on the pecuniary advantages accruing to those entitled. The number of share options allocated is determined by individual performance. At the same time, there are ambitious conditions for exercising such rights. This makes having a maximum limit redundant from the standpoint of the company.

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

in accordance with Item 5.1.2 of the Code
Up until now no formalised process has been set in place. The Supervisory Board, however, is deliberating on this topic.

AGE LIMIT FOR MEMBERS OF THE BOARD OF DIRECTORS

in accordance with Item 5.1.2 of the Code
There have been/are no plans to place a limit on the age of members of the Board of Directors.

The qualifications required for membership in the Board of Directors are first and foremost knowledge, ability, and specialised experience.

FORMATION OF A NOMINATION COMMITTEE

in accordance with Item 5.3.3 of the Code

At the end of 2008, the Supervisory Board set up a Nomination Committee. The recommendation has been adopted since this time.

AGE LIMIT FOR MEMBERS OF THE SUPERVISORY BOARD

in accordance with Item 5.4.1 of the Code

Similar to the Board of Directors, determinant criteria for membership in the Supervisory Board are first and foremost the qualifications and the experience of the respective candidate. For this reason, there are no plans to place a limit on the age of members of the Supervisory Board. Moreover, placing a limit on age would unduly restrict the rights of the Annual General Meeting to appoint Supervisory Board members.

TAKING ACCOUNT OF EXERCISING OF THE CHAIR AND MEMBERSHIP IN COMMITTEES IN THE REMUNERATION PAID TO THE SUPERVISORY BOARD

in accordance with Item 5.4.6 of the Code

Special remuneration for the exercising of the Chair or membership in committees has not yet been provided for. Instead committee members receive attendance remuneration. Committed cooperation of the Supervisory Board members on the committees is guaranteed through other remuneration. A proposal is to be put to the Annual General Meeting to be held on 19 May 2009 to grant remuneration for the activities of Supervisory Board members in committees with retrospective effect from 1 January 2009. This measure will therefore fully serve to implement Code Item 5.4.6.

PUBLICATION OF THE ANNUAL FINANCIAL STATEMENTS WITHIN 90 DAYS

in accordance with Item 7.1.2 of the Code

In order to ensure that high standards are fulfilled in the preparation of the annual accounts at company and at Group level, they will be published within a period of four months following the end of the reporting period in accordance with Sections 37v para. 1 sentence 1, 37y sentence 1 of the German Securities Trading Act (WpHG).

Sulzemoos, 19 March 2009
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 2008

FOREWORD

This report is a description of the business performance of the Phoenix Group in the financial year 2008. Alongside the listed parent company Phoenix Solar AG, the Group comprises the subsidiary Phoenix Solar Energy Investments AG and its subsidiaries Phoenix Solar Fonds Verwaltung GmbH (formerly Phönix SonnenFonds Verwaltungs GmbH), TPC Photoenergy srl, Scarlatti Srl., the Spanish subsidiary Phoenix Solar S.L., Madrid, founded in the financial year 2006 (formerly Phoenix Energía Solar S.L.), and Phoenix Solar Pte. Ltd., Singapore, as well as Phoenix Solar E.P.E, Athens, and Phoenix Solar Pty Ltd, Adelaide, newly founded in the reporting year. Phoenix Solar S.r.l., Rome (formerly RED 2002 S.r.l.), previously held as a minority holding, has now been included in the group of fully consolidated subsidiaries since 1 January 2008 through the exercising of an option for the takeover of a another 26 percent. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS).

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 seven 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

The general economic environment for the business activities of the Phoenix Solar Group deteriorated notably in the financial year 2008. The international financial crisis, triggered by the US subprime market, placed increasing pressure on the goods and services markets. In addition, the partly sharp increases in the price of energy and raw materials and higher inflation rates had a negative impact on the business environment. There was a considerable economic slowdown, especially in the industrialised nations.

In the euro zone economic growth fell from just under three percent in the year 2007 to around one percent in the period under review.

A clear downtrend also emerged in Germany over the course of the year: economic output in 2008 rose by a price-adjusted mere 1.3 percent as compared with the years 2007 and 2006 which recorded growth of 2.5 and 3.0 percent respectively. Whereas the German economy had a sound start to the year, it has been in recession since the second quarter of 2008, and there is currently no end in sight. The causes are weak global demand and the partly strong euro which burden the price-related competitiveness of German exports. While capital expenditure increased only moderately, thus lending support to the economy, rising inflation rates dampened private consumption. One of the main price drivers turned out to be long phases of very high energy prices which put the issue of "renewable energies" at the forefront of the attention of consumers and the media.

Compared with Germany, only Greece of the European target markets was able to perform a little better with an increase of 2.9 percent in its gross domestic product. Given the conditions specific to the respective country, the economic slowdown was more pronounced in Spain and Italy than in the EU average. The bursting of the speculation bubble in the Spanish real estate sector slowed the growth which had held steady or ten years and which permitted the gross domestic product to double within this period. Accordingly, economic growth in Spain in 2008 came to 1.2 percent; Italy, where there was a decline in economic output of 0.6 percent on an annual basis, was already in recession in 2008.

Asia was also unable to decouple from the global economic downturn. Although the developing markets of Asia continued to grow swiftly in 2008 (+ 7.8 percent), in comparison with the previous year (+ 10.6 percent), however, the pace of this growth has slowed considerably.

1.2 DEVELOPMENT OF THE PHOTOVOLTAIC SECTOR

At the start of the year 2008, the photovoltaic sector was impacted by uncertainty about the future development of photovoltaics in the three main markets of Germany, Spain and the USA. Over the course of the year, the way was paved for the future expansion of photovoltaics in all three markets: in Germany with the amended version of the Renewable Energies Act (EEG), valid as from 1 January 2009, in Spain with the new Royal Decree RD 1578/2008, and in the USA where interested parties could avail themselves of so-called investment tax credits. The hefty lowering of the feed-in tariffs in Germany, however, and the similarly significant decline in feed-in remuneration in Spain, coupled with the introduction of a cap on the annual photovoltaic output, presented a great challenge to the photovoltaic sector.

Demand was driven by growth in all markets, headed by Spain and Germany. In Spain, installation rose from 640 megawatt peak output (MWp) in 2007 to 2,439 MWp in 2008, which put Spain in the clear lead as the world's largest photovoltaic market. Germany also recorded significant growth in the photovoltaic sector. New installation climbed from 1,100 MWp in 2007 to around 1,500 MWp in 2008. The estimate for the total volume of modules produced in the year 2008 comes to a peak output of 4.8 gigawatt (GWp), up from 2.25 GWp in 2007.

The year 2008 was generally a very successful one for the German solar sector. In Germany alone, sales grew 22 percent to an estimated EUR 7,000 million as against the previous year (source: German Solar Industry Association (Bundesverband Solarwirtschaft (BSW)), January 2009). In addition, the export volume climbed to EUR 3,700 million (source: BSW, January 2009). According to information from the German Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit (BMU)), the number of jobs in the German renewable energies sector had risen to around 250,000 by year-end 2007, approximately 50,700 of which were created in solar companies. Jobs in the solar sector have meanwhile attained the level of most conventional energy sectors. There is still no up-to-date data available for 2008. It can, however, be assumed that there has been a significant increase in the number of people employed.

Upon the expiry of the Royal Decree RD 661/2007 at the end of September, the Spanish market came to a stillstand. From November 2008 onwards, the photovoltaic sector felt the first significant impact of the global financial crisis, especially in the sale of large photovoltaic power plants. Financing was increasingly hampered by rising interest rates and by the higher proportion of equity required by banks. In addition, banks were experiencing increasing difficulties in refinancing with the result that virtually no large photovoltaic projects were financed as from November onwards.

The significant ramping up of production capacity in solar modules, on the one hand, and the end of the Spanish boom, in conjunction with financing problems in the power plant business, on the other, led to large volumes of solar modules in the market in the fourth quarter of 2008. Prices on the sales and procurement front fell earlier than expected owing to the oversupply of modules.

1.3 PROCUREMENT MARKET

The first three quarters of 2008 were characterised by a supply oligopoly in comparison with the last quarter where a trend towards a demand-oriented market emerged. Owing to brisk demand, above all in the Spanish and German markets due to the changes in the respective laws on feed-in tariffs in these countries, modules were still in short supply up until the end of the third quarter. This enabled producers to command high selling prices in the market over a long period. They were even able to implement higher selling prices in the Spanish market as compared with, for instance, the German market.

In tandem with the expiry of the Spanish Royal Decree on feed-in tariffs at the end of September, the demand for modules declined. At this stage at the latest, the impact of the international financial crisis had filtered through which, in turn, resulted in delays in the realisation of projects due to financing problems experienced by investors. This development caused demand to fall further which resulted in rising levels of module inventories held by producers, with a number of them suffering from the first liquidity shortfalls.

Currency volatility triggered by the international crisis, particularly in respect of the Japanese yen (JPY) and the US dollar (USD), made the purchase price of Japanese modules in particular unattractive and caused demand to slacken in the global market.

There was a slight easing of the situation in 2008 attributable to the falling price of the basic and raw materials of aluminium and crude silicon, which also resulted in module prices falling at year-end.

All in all, the procurement market for photovoltaic modules underwent a transformation from a supply to a demand market towards the end of the reporting year.

1.4 SALES MARKET / GERMANY

In the second quarter of 2008, German Federal Parliament passed the successor to the German Renewable Energies Act (EEG), which provided for a swifter lowering of feed-in tariffs as from 1 January 2009. This amendment to the Act was subsequently approved by the German Federal Council on 4 July 2008. The amendment provides a reliable foundation for the positive development of the photovoltaic market in Germany in the years ahead.

As opposed to recent years, the distributors and end customers of modules had already placed their orders by the beginning of the year in order to secure the volume necessary for the whole year as the situation on the Spanish market had caused a bottleneck in the supply of modules. Demand ranged at a high and very stable level throughout the whole year. In the fourth quarter, more modules were available, which was reflected in the pricing. Despite the high availability of modules, strong demand by end customers could not be fully met as installation operations did not have the necessary capacity for assembly.

1.5 SALES MARKET / INTERNATIONAL

The European market outside Germany was dominated by the Spanish market which developed into the world's largest market in 2008 (approximately 2.44 GWp) and ensured that prices in Europe remained at a high level throughout the first three quarters, only entering into a downtrend in the fourth quarter. This very positive development in the photovoltaic market will, however, not persist as the new Royal Decree in Spain has limited the market to 500 MWp in the coming years and feed-in remuneration has been curtailed. In terms of volume, the Spanish market will therefore return to the middle range in Europe.

The legal framework conditions in Italy did not change in 2008. Nonetheless the interest in photovoltaic systems is discernibly growing. This interest is shown in the increase of enquiries about larger and smaller power plants, whereby the main bulk of enquiries is for power plants up to a dimension of around 500 kWp. In the case of larger plants, there is still uncertainty as to the financing and keeping to schedule in respect of connecting up to the grid. Estimates suggest that the market has grown to a size of more than 220 MWp in 2008, with the hurdles having been raised again in southern regions through special regulations on realisation.

The legal framework conditions in other European markets remained unchanged for the most part; there is a trend in France, however, which suggests that the market is becoming more receptive.

The global demand for photovoltaic systems also grew unabatedly. However, developments varied from region to region. Whereas the Japanese photovoltaic market, a few years ago the largest in the world, did not regain its important standing in 2008, the markets in Europe and North America expanded swiftly.

1.6 GENERAL CONDITIONS / GERMANY

As prescribed under the German Renewable Energies Act, the feed-in tariffs were lowered five percent for building-mounted systems and 6.5 percent for ground-mounted systems as per 1 January 2008. The remuneration rates were thus between 0.4301 cents per kilowatt hour (kWh) fed into the grid for façade-mounted systems up to 30 kWp and 0.3794 cents for ground-mounted systems.

The EEG has promoted the swift expansion of photovoltaics in Germany. Its contribution to electricity produced has risen from one gigawatt hour (GWh) in 1990 to 3,075 GWh in 2007. The contribution of photovoltaics to generating electricity has grown to 0.7 percent of the total electricity supply within a few years.

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.

As from the fourth quarter of 2008, the impact of the global financial crisis on the financing of large photovoltaic power plants was becoming increasingly evident. The financing conditions deteriorated visibly on the back of higher interest rates and the higher proportion of equity required. The refinancing problems of banks resulted in virtually no projects being financed in the fourth quarter. Only in the Components & Systems segment, where Phoenix Solar sells mainly small and mid-sized systems through its sales and distribution channels, were there hardly any signs of the crisis.

1.7 GENERAL CONDITIONS / INTERNATIONAL

Planning security having returned to Germany as the world's second largest photovoltaic market through the passing of the Renewable Energies Act Amendment, attention turned increasingly to Spain as the largest photovoltaic market. Photovoltaic power plants under construction had to be completed in the third quarter in order to qualify for the feed-in remuneration under the Royal Decree RD 661/2007 due to expire at the end of September. The very advantageous general conditions provided for under this Royal Decree allowed the market to grow to around 2.44 GWp.

The new Royal Decree RD 1578/2008, which has meanwhile been passed, confirms the supposition that the strong growth seen in the Spanish market will not continue at the same level in 2009. For instance, the feed-in tariff for ground-mounted photovoltaic plants with a peak output of more than 100 kilowatt (kWp) was lowered from EUR 0.4175 per kilowatt hour (EUR / kWh) to EUR 0.32 / kWh. Whereas the size of photovoltaic plants was not limited under RD 661/2007, the new decree will introduce a maximum limit of ten MWp. Feed-in remuneration has also been lowered substantially and introduced for roof-mounted systems, depending on the size. Accordingly, feed-in remuneration for systems below 20 kWp has fallen from EUR 0.4404 / kWh to EUR 0.34 / kWh and for systems below two MWp to EUR 0.32 / kWh. The size of roof-mounted systems has been limited to two MWp. In addition, a cap is to be introduced both for the overall market 2009 (500 MWp) as well as for the ground-mounted (233 MWp) and roof-mounted (266 MWp) segments.

There were no other changes in general conditions worth mentioning in other parts of the world over the course of 2008.

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

2.1 BUSINESS MODEL

Phoenix Solar AG, founded in November 1999, has evolved into a leading system supplier with increasingly globalised operations. The company has stepped up its international strategic alignment through the founding of two more subsidiaries in Greece and Australia in 2008. Moreover, the holdings in two southern European subsidiaries have been raised uniformly to 100 percent: Phoenix Solar AG purchased the remaining shares of five percent formerly held by the Spanish managing director in Phoenix Solar S.L., and the shares in Italian Phoenix Solar S.r.l. (formerly RED 2002 S.r.l.) were raised from 49 to 100 percent in July 2008.

At the operational level, Phoenix Solar is active in two complementary business segments: the Components & Systems and the Power Plants segments. These two business segments are replicated in all subsidiaries.

In the Components & Systems segment Phoenix Solar offers tailored system 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 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.

The Power Plants segment provides the necessary planning services right through to the turnkey construction of photovoltaic plants in the megawatt range, with follow-up operation and maintenance. At the sales level, the Power Plants segment is integrated into the power plant sales and investor business. In the capacity of general contractor, power plant sales acquires orders, for instance, through tendering processes. Its customers include private individuals and businesses from trading, industry and commerce.

The “investor” target group for large photovoltaic projects which, from a sales standpoint, is part of the subsidiary Phoenix Solar Energy Investments AG, serves institutional investors which launch fund models or integrate large photovoltaic systems into their own portfolios as direct investors.

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 requirements. Phoenix Solar therefore places special importance on having 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, our aim is to update and optimise this offering on an ongoing basis in line with market requirements.

2.2 STRUCTURE AND MANAGEMENT

The functional-regional organisation structure, implemented with the support of an international consultancy firm, has enhanced the company's ability to respond swiftly to changes in the photovoltaic market which is characterised by its dynamic pace. With this structure as a basis, core processes were identified over the course of the year 2008 and workflows subsequently adjusted and the Internal Control System (ICS) aligned accordingly.

A major part of adjusting ICS was to create a new concept for the allocation of competences. These individual measures carried out at the process and structure levels were integrated as major components into the preselection of a new inventory management system.

Significant impetus for managing and controlling the Group is derived from the key parameters of revenues, EBIT and EBIT margin. Beyond this, return on capital employed (ROCE) is a ratio which is also becoming increasingly important.

In addition, towards the end of the year, work began on implementing a balanced scorecard where the focus is on the interaction of the key success factors of customers, employees, finance and processes. Goals derived from strategic corporate goals were defined for the various business segments and cascaded down to employee level in the form of individually agreed objectives. The monitoring of success, which is aimed at recording progress along the way to the fulfilling of the objectives, includes the implementation of the measures agreed through to the assessment of the degree to which goals have been achieved through previously defined ratios.

2.3 COMPETITIVE ADVANTAGES, STRENGTHS, CORE COMPETENCIES

Phoenix Solar leverages synergies from the link between its two business segments. In recent years, for instance, we used our experience in power plant construction to develop and further optimise systems in the Components & Systems segment. Our own knowledge and our close contact with the manufacturers were factors which contributed to optimising system technology and lowering system costs. The link between the two segments also enables the company to secure the purchasing of modules and other components from manufacturers on a more consistent basis. In times of slack demand, there is the option of offsetting weakness in one of the segments by tapping demand across segments and national borders. This competitive advantage was exploited especially in the fourth quarter of 2008 when financing problems in respect of large power plants hampered sales in this segment but demand was still running high for additional volume through the Components & Systems sales channel.

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 serves to considerably sharpen the company's competitive edge. Moreover, management is distinguished by its long-standing and established contacts 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 most particularly solar modules 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 thin-film technologies in particular are set to play a greater role in the market. The Phoenix Group identified and took account of the cost advantages accruing from these technologies at an early stage in the construction of photovoltaic facilities.

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 power plants, especially as regards the use of thin-film technologies. The company is dedicated to raising the efficiency and profitability of power plants with the help of an intensive exchange of experience with manufacturers aimed at effectively counteracting the cost pressure in the solar industry.

2.4 STRATEGIC GOALS

In its core competence of photovoltaic systems technology, the Phoenix Group pursues the strategic objective of securing and strengthening its position in Germany as a leading supplier which operates independently from manufacturers. Phoenix Solar is striving to become more independent from state support for photovoltaics, thereby minimising the risks which arise from the current dependency. This is to be achieved first and foremost through lowering costs and through innovations in the planning and construction of systems, through the use of new technologies as well as forging ahead with internationalisation.

Against this backdrop, Phoenix Solar has the following strategic goals:

- consistent focusing on its core competence of photovoltaic system technology,
- internationalisation of operations,
- extending its range of innovative and competitive photovoltaic modules,
- further cost optimisation in photovoltaic systems which have the ability to generate cheaper solar electricity.

2.5 OPPORTUNITIES OF THE PHOENIX GROUP AND OF THE BUSINESS MODEL

The business model of the Phoenix Group is only comparable with the business models of other listed photovoltaic companies to a limited extent. Phoenix Solar is specialised in 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 the manufacturing of upstream products, such as photovoltaic modules, is not expedient in achieving the company's goals.

Management's view is that a business model which concentrates on photovoltaic system 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 whole 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.

2.6 LONG-TERM GROUP OBJECTIVES

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 steadily raising the share in the markets which the Group already covers and accelerated 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 and to over 65 percent by the year 2013. To date, international business has developed in line with plans. Accordingly, the company has succeeded in raising the share of international business in sales from four percent in 2004 to twelve percent in 2006, and to meanwhile 40 percent in 2008.

In the Phoenix Group, processes in system technology are developed and optimised on an ongoing basis with the aim of identifying cost cutting potential in photovoltaic systems, thus enabling them to be offered on a more cost-effective basis. This active contribution is aimed at enabling plants to achieve economic viability at the earliest possible time without government subsidies and incentive programmes.

2.7 LOCATIONS

The parent company Phoenix Solar AG has its principal place of business in Sulzemoos near Munich. The management and control, as well as the administration and internal logistics and business in Germany are all conducted from this location. The Power Plants segment, consisting of sales force Germany, power plant construction and the control centre (power plant maintenance), is located in the Ulm subsidiary. The subsidiary Phoenix Solar Energy Investments AG and its subsidiary Phoenix Solar Fonds Verwaltung GmbH also have their headquarters in Sulzemoos.

The Phoenix Solar Group was extended to include new subsidiaries in the parent company as well as in Phoenix Solar Energy Investments AG. In addition, the holding in Phoenix Solar S.r.l. (formerly RED 2002 S.r.l.) in Italy was raised from a previous 49 percent to 100 percent. On the reporting date, Phoenix Solar AG was represented through its international subsidiaries in Spain (Madrid), Italy (Rome), Greece (Athens, since June 2008), Australia (Adelaide, since July 2008) and Singapore.

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. TPC Photoenergy srl and Scarlatti Srl., both with their principal place of business in Italy (Eppan an der Weinstraße), are project companies of Phoenix Solar Energy Investments AG.

2.8 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 December 2008, the Board of Directors of Phoenix Solar AG was extended to include the function of a Board member responsible for sales (Chief Sales Officer, CSO). The position has been filled by industrial engineer Ulrich Reidenbach MSc who has been appointed for two years. He is responsible for all sales activities in Germany and abroad and in the Components & Systems and Power Plants segments.

2.9 PHOENIX SONNENAKTIE® (THE SHARE OF PHOENIX SOLAR AG)

Phoenix Solar AG has been listed on the regulated market of the Frankfurt Stock Exchange since 27 June 2006 and fulfils the transparency standards required by Prime Standard. The company was admitted to the TecDAX, the technology index of Deutsche Börse on 25 March 2008.

The number of shares outstanding since 31 December 2008 comes to 6,684,500. All shares are bearer shares and are admitted to trading under the international securities identification number DE000A0BVU93. The arithmetical portion of a share in the share capital is EUR 1. The share capital comes to EUR 6,684,500.

Based on the share option plan approved for Board members by the Annual General Meeting of 7 July 2006, 33,250 options were allotted on 10 September 2007 for the first time and another 76,500 options in 2008. More details can be found on the Share Option Plan in the Notes.

In 2008, the price performance of the share was impacted by the international financial crisis from September onwards. Over the course of the year up until 2 September 2008, there was a sharp uptrend in the share price which increased by 28 percent. The closing price on the last trading day of the reporting year stood at EUR 25.13 (2007: EUR 41.00), which is a loss of 39 percent. Market capitalisation on 31 December 2008 was around EUR 168 million.

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

As per 31 December 2008, the subscribed capital of Phoenix Solar AG came to EUR 6,684,500. It is divided into an equal number 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 issued with special rights. 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.

In the event of amendments to the Articles of Association, the legal provisions of Sections 179 et seq. 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.

The appointing or dismissal of members of the Board of Directors falls under the responsibilities of the Supervisory Board in accordance with legal requirements pursuant to Sections 84 et seq. German Stock Corporation Act (AktG). The number of board members and any deputies is determined by the Supervisory Board.

The Annual General Meeting passed a resolution on 3 June 2008 on the authorisation of the Board of Directors concerning the option of purchasing and using the shares of the company. Accordingly, the Board of Directors is authorised, subject to approval by the Supervisory Board, to purchase shares of the company once or a number of times in observance of Section 186 para. 3 sentence 4 German Stock Corporation Act (AktG) up to a maximum portion of ten percent of the share capital, i.e. up to a total of 668,450 shares, via the stock exchange or by a public purchase offer made to all shareholders and to resell under defined conditions. The aforementioned amount of shares to be purchased lowers or raises the actual share capital accordingly. This authorisation is valid until 1 December 2009.

On 7 July 2006, the Annual General Meeting authorised the Board of Directors, subject to approval by the Supervisory Board, to raise the share capital of the company in the period up to 6 July 2011 through the issuing of new shares made out to bearer against cash and / or non-cash contribution once or a number of times up to a total of EUR 2,210,500 (Approved Capital 2006). The Board of Directors is authorised, subject to approval by the Supervisory Board, to decide on the exclusion of subscription rights of the shareholders. The Board of Directors is also authorised, subject to approval by the Supervisory Board, to determine the content 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. This authorisation was exercised on 12 December 2006 and on 2 April 2008, and the share capital raised to EUR 6,684,500. The remaining Approved Capital comes to EUR 1,603,000.

The share capital has been raised conditionally by up to EUR 552,500 through the issuing of up to 552,500 new shares made out to bearer (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 approved 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. 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).

Since October 2008, there have been commitments in the contracts of two members of the Board of Directors, so-called change-of-control clauses, for the event of termination of their activities due to change of control. In the event of a change of ownership or a concentration of at least 30 percent of the voting rights at Phoenix Solar AG, the Board member has the right, upon cognizance of these events, of terminating his/her employment contract with a period of notification of six months and of laying down is/her office. In the event of a Board member leaving the company, he/she is entitled to settlement in the amount of a maximum of three years fixed remuneration and 80 percent of the possible performance-based remuneration.

4. REMUNERATION REPORT

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

Pursuant to Section 314 para. 2 item 4 of the German Commercial Code (HGB), the section below explains 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 of the German Commercial Code (HGB). The remuneration report accords with the provisions set out under the German Act on the Disclosure of Management Remuneration (VorstOG) and the recommendations of the German Corporate Governance Code and itemizes 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 member of the Board of Directors is therefore 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 2008 is made up of the following components:

a) Fixed remuneration
This component comprises a contractually fixed monthly salary, along with various fringe benefits. For instance, 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. For the purpose of calculating to what degree goals have been fulfilled, revenue and EBIT are weighted one to three respectively. If the goals are one hundred 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 bonus is, however, tied to the minimum level of goals being achieved which must be clearly above 75 percent. 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 2008, the target set for EBIT at Group level is exceeded, the 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 financial year ended, 36,000 share options were allotted to the members of the Board of Directors. The number of subscription rights granted is based on the performance of the 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 exercise 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 now five members of the Board of Directors came to kEUR 2,066 in the financial year 2008 (2007: four members; kEUR 1,315). 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	143	(140)	242	(152)	182	(46)	567	(338)
Manfred Bächler	141	(143)	204	(143)	182	(46)	527	(332)
Dr. Murray Cameron	135	(132)	162	(143)	182	(46)	479	(321)
Sabine Kauper	136	(133)	162	(145)	182	(46)	480	(324)
Ulrich Reidenbach	13	(0)	0	(0)	0	(0)	13	(0)
Total	**568**	**(548)**	**770**	**(583)**	**728**	**(184)**	**2,066**	**(1,315)**

(2007 figures in brackets)

There are no pension commitments for the members of the Board of Directors. In the event of decease, surviving dependents will receive payment of the salary for a period of six months. In respect of the content of the change-of-control laws agreed in Board member contracts, reference is made to Section 3 "Reporting pursuant to Section 315 para. 4 of the German Commercial Code (HGB)". 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 approved 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 attendance at meetings of the Supervisory Board and of the committees.

b) Performance-based remuneration
The Supervisory Board members receive an additional annual bonus based on the EBIT ascertained from the financial statements drawn up under German commercial law. This bonus comes to EUR 750 per EUR 1 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 were not granted a loan by the company.

All in all, the remuneration of the members of the Supervisory Board came to kEUR 188 in 2008 (2007: kEUR 117). 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	23	(22)	36	(15)	0	(0)	59	(37)
Ulrich Fröhner	15	(12)	18	(8)	0	(0)	33	(20)
Ulrich Th. Hirsch	12	(10)	12	(5)	0	(0)	24	(15)
Prof. Dr. Klaus Höfle	12	(10)	12	(5)	0	(0)	24	(15)
Dr. Patrick Schweisthal	12	(10)	12	(5)	0	(0)	24	(15)
Prof. Dr. Thomas Zinser	12	(10)	12	(5)	0	(0)	24	(15)
Total	**86**	**(74)**	**102**	**(43)**	**0**	**(0)**	**188**	**(117)**

(2007 figures in brackets)

5. BUSINESS PERFORMANCE IN THE FINANCIAL YEAR 2008

5.1 GENERAL DEVELOPMENT

In Germany, Spain and Italy, the Phoenix Group's most important markets, the demand for Phoenix photovoltaic systems remained at a consistently high level. In Spain, the end of September 2008 saw the expiry of the Royal Decree on feed-in tariffs which, following on from an outstanding performance in the first three quarters of the year, led to an immediate drop in order intake in the fourth quarter. Demand in all segments ran at a high level in Germany up until the end of the year. Brisk demand in the Power Plants segment was juxtaposed to financing problems in the wake of the crisis in the banking and financial sector, above all in the final quarter of the year. The high volume of revenue generated by the Components & Systems segment and the successful completion of large power plants in Spain and Greece were the main drivers of growth. The market environment is reflected in the positive revenue and earnings trend.

5.2 GUIDANCE FOR REVENUE AND EARNINGS

The Phoenix Group generated revenues of EUR 402.5 million in the reporting year, which is an increase of 54.7 percent as against the previous year. EBIT came in at EUR 33.8 million and was thus 52 percent higher year on year.

The original expectation of the Board of Directors for the financial year 2008 was for revenues of significantly more than EUR 300 million and a Group EBIT of around EUR 18 million. The successful course of business in the financial year led to revenues and EBIT expectations for the Group being lifted to more than EUR 370 million and EUR 23 million respectively as per 14 May 2008. Guidance was last adjusted on 13 November 2008 upon the release of the figures for the third quarter. The Board of Directors raised revenue expectations to EUR 380 million and the EBIT target to around EUR 33 million.

The Board of Directors presented its first guidance for the year 2009 on 27 January 2009: revenues are expected to rise to around EUR 520 million and Group EBIT to around EUR 31 million in 2009.

6. EARNINGS, FINANCIAL POSITION AND NET WORTH

6.1 EARNINGS

SUMMARISED INCOME STATEMENT

in k€	2008	2007	2006
Revenues	402,494	260,118	118,994
Increase / decrease in the level of contracts in process	16,872	0	0
Overall performance	419,366	260,118	118,994
Other operating income	3,699	1,144	1,134
Cost of materials	356,492	220,881	103,146
Personnel expenses	12,478	7,956	4,833
Depreciation and amortisation	425	313	236
Other operating expenses	19,867	9,908	7,144
Result from associated companies	20	55	17
EBIT	33,823	22,259	4,786
Financial result	– 378	– 687	6
EBT	33,446	21,572	4,792
Income taxes	9,767	7,101	1,766
Profit due to minority interest	20	10	– 2
Consolidated net income	**23,699**	**14,481**	**3,024**

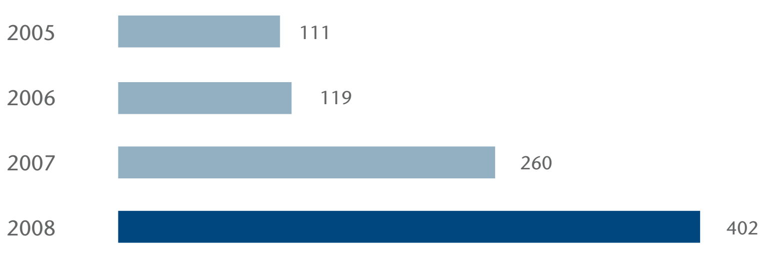
6.1.1 SALES REVENUES

The Phoenix Group again significantly outperformed the previous year's revenues in 2008 and achieved its highest revenue level yet of EUR 402.5 million, which corresponds to an increase of 54.7 percent as against 2007.

Strong growth was bolstered by the positive development in domestic and international business. Spanish Phoenix Solar S.L. in particular raised its share in consolidated revenues from 9.7 percent in 2007 to 15.6 percent in the reporting year. Significant growth was also achieved by the subsidiaries in Italy (+ 152 percent) and in Singapore (+ 529 percent), while the newly founded subsidiaries in Greece and Australia were primarily focused on building up sales and distribution structures.

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 70.4 million in 2007 to EUR 159.7 million in 2008.

Total revenues generated by the Phoenix Group in 2008 are allocated to the various segments as follows: EUR 214.6 million to the Components & Systems segment (53.3 percent), EUR 187.8 million (46.7 percent) to the Power Plants segment and EUR 0.1 million (0.02 percent) to the Other Activities segment.

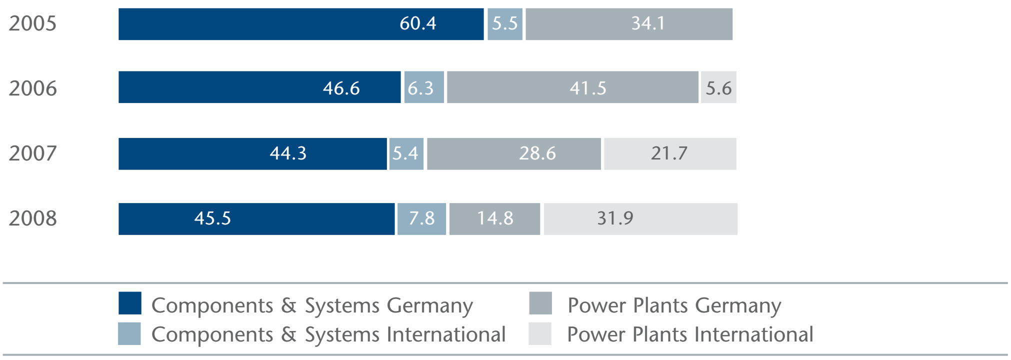
Of the revenues achieved by the Components & Systems segment, EUR 183.4 million (45.5 percent of consolidated revenues) were attributable to business in Germany and EUR 31.2 million (7.8 percent of consolidated revenues) to international business. Despite the nominal substantial increase in domestic revenues (EUR 68.2 million) in this segment, the percentage share in consolidated revenues rose slightly from 44.3 percent (2007) to 45.5 percent in the reporting year.

Of the revenues generated by the Power Plants segment, EUR 59.4 million (14.8 percent of consolidated revenues) were attributable to business in Germany and EUR 128.4 million (31.9 percent of consolidated revenues) to international business. Domestic revenues therefore fell by EUR 14.9 million (– 20.1 percent) and international revenues climbed by EUR 72 million (128 percent) as against the previous year's figures. The growth in international revenues is primarily attributable to the sharp increase in power plant projects completed in Spain, with a project also being successfully realised in Greece.

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

The most important sales markets in 2008 were Germany with a share of 60.3 percent (EUR 242.8 million) and Spain with 35 percent (EUR 139.1 million).

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



6.1.2. OTHER OPERATING INCOME

Other operating income rose to EUR 3.7 million as compared with the previous year's figure of EUR 1.14 million. The largest single position was non-cash release of provisions (EUR 0.3 million; 2007: EUR 0.4 million) and income from exchange gains of EUR 1.7 million (2007: EUR 0.3 million).

6.1.3 COST OF MATERIALS

The cost of materials rose owing to higher level of sales, from EUR 220.9 million in 2007 to EUR 356.5 million in the reporting year. With an increase of 61.4 percent, the cost of materials has developed appropriately in proportion to sales growth (54.7 percent).

Expenses for services outsourced included in the cost of materials totalled EUR 52.4 million in the reporting year, up from EUR 38.2 million in 2007. This is primarily attributable to the greater number of projects.

6.1.4 PERSONNEL EXPENSES

Accompanying the increase in business volume in established markets in Germany and Spain and the expansion of Group activities in Greece, Italy and Australia, Group structures and the allocation of tasks were adjusted in the financial year ended with the result that 53 new positions were created. This resulted in a rise in personnel expenses from EUR 8 million in 2007 to EUR 12.5 million in the reporting year, which is an increase of 56.8 percent. The personnel expense ratio (personnel expenses measured against revenues), however, remained at 3.1 percent, unchanged from 2007. The average number of employees came to 190 staff members in 2008 (including five Board members) as compared with 125 in 2007. The ratio of revenues to full-time equivalent (FTE) employees came to kEUR 2,392 in the reporting year (2007: kEUR 1,915), which represents an increase in efficiency of 25 percent.

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 (asset utilisation ratio). In as much, the Property, plant and equipment item comprises mainly office equipment and 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 0.4 million, remained virtually unchanged from the level of EUR 0.3 million in 2007.

6.1.6 OTHER OPERATING EXPENSES

An increase in volume in the growth phase of the Group inevitably necessitates an increase in variable costs. In the year 2008, the company also placed great emphasis on the control and management of costs. In relation to total revenues, costs, which came to 4.9 percent in relation to sales as compared with 3.8 percent in 2007, were kept at a moderate level, as before, given the general rate of increase in costs and in view of the expansion of the Group's activities.

As in 2007, the largest cost group was the administrative expenses which came to EUR 7.6 million (2007: EUR 4.1 million). The cause of this 85 percent increase lies in the considerably higher volume of business and in the consistent pursuit of the long-term corporate strategy.

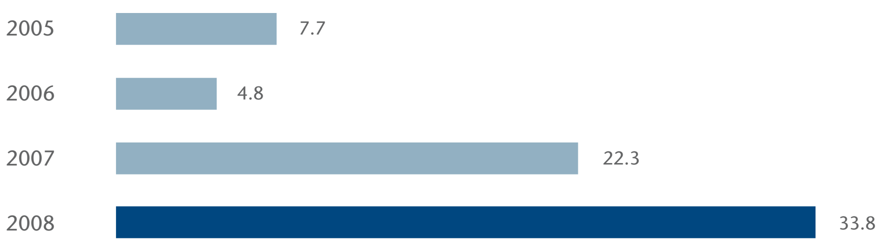
The Phoenix Group spent EUR 0.08 million on research and development in 2008 (2007: EUR 0.13 million).

6.1.7 EARNINGS BEFORE INTEREST AND TAXES (EBIT)

Earnings before interest and taxes (EBIT) of the Group came to EUR 33.8 million, which is the best result in the history of the Group and represents an increase of 52 percent as against the previous year. This performance was mainly attributable to strong revenue growth (54.7 percent as against 2007) and a moderate development in costs. Costs which impact EBIT stood at 93 percent in relation to the overall output in 2008 in comparison with the previous year's figure of 92 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. In the reporting year, this ratio came to 8.4 percent and was thus virtually unchanged from the previous year's figure of 8.6 percent.

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



As per 31 December 2008, Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a stake of 31.2 percent, was valued as an associated company using the at-equity method. The proportion of the result of associated company due to the Phoenix Group stood at EUR 19,705 (2007: EUR 32,337).

Tax expenses in the reporting year posted 29 percent of earnings before tax (2007: 33 percent).

Basic earnings per share of the parent company came to EUR 3.63, and diluted earnings per share climbed to EUR 3.62, up from EUR 2.38 in 2007.

6.2 FINANCIAL POSITION AND NET WORTH

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

in k€	2008	2007	2006
Consolidated income before taxes and minority interests	33,446	21,572	4,792
Cash flow from operating activities	– 23,628	4,788	– 14,907
Cash flow from investing activities	– 2,459	– 1,537	– 1,016
Cash flow from financing activities	19,620	– 420	7,023
Net changes in cash	– 6,465	2,831	– 8,900

The main factors influencing the cash flow from operating activities were an increase in inventories of EUR 50.5 million and a decrease in receivables from long-term construction contracts of EUR – 8.6 million. The cash flow was also burdened by the increase in trade receivables of EUR 6.5 million and other non-financial assets of EUR 8.8 million.

The year-on-year change in the cash flow from investing activities posted EUR – 2.5 million (2007: EUR – 1.5 million). Influencing factors are investments in intangible assets and property, plant and equipment (EUR 1.3 million) and the purchase of all the shares in Phoenix Solar S.r.l., Italy.

Funds of EUR 20.4 million from the capital increase were received as part of the financing activities in the reporting year. The largest outflow of funds was the distribution of dividend of EUR 1.3 million.

The year-on-year change in cash and cash equivalents was from EUR 14 million in 2007 to EUR 7.5 million. The liquidity of the Group was guaranteed at all times.

The monitoring, planning and control of financial risks to safeguard operational success is the task of in-house 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.

In order to strengthen the future liquidity base of Phoenix Solar and to secure the financing of growth activities, a syndicated loan of EUR 150 million with a term of three years was concluded in the reporting year. This loan will be used to cover both cash and guarantee drawdowns. In addition to this syndicated loan, there were other guarantee lines available of EUR 28 million. Credit lines amounting to a total of EUR 178 million had been utilised for guarantees in the amount of EUR 36.8 million as per the reporting date. The syndicated credit line of EUR 150 million is limited until 19 November 2011, and the additional guarantee lines worth EUR 28 million have been made available until further notice.

In particular the purchase of intangible assets and investments in property, plant and equipment of EUR 1.3 million in the reporting year led to non-current assets increasing by EUR 0.4 million.

Trade receivables of EUR 24.8 million were EUR 6.5 million higher than the previous year's figure. The cause of this receivables disclosure is the completion of invoicing for a number of major projects in the Power Plant segment as per the end of the financial year.

Changes in provisions were primarily attributable to guarantees for legal and contractual guarantee obligations vis-à-vis customers in the amount of EUR 1.6 million as per the reporting date (2007: EUR 0.6 million). Current provisions rose from EUR 0.7 million to EUR 1.2 million.

Equity capital climbed from EUR 47.3 million to EUR 89.3 million, which corresponds to an equity ratio of 69.9 percent (2007: EUR 61.4 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	31/12/2008		31/12/2007		31/12/2006	
	in k€	%	in k€	%	in k€	%
Non-current assets	5,333	4.2	5,331	6.9	3,145	5.8
Current assets	122,430	95.8	71,771	93.1	50,864	94.2
Total assets	**127,763**	**100.0**	**77,102**	**100.0**	**54,009**	**100.0**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2008		31/12/2007		31/12/2006	
	in k€	%	in k€	%	in k€	%
Equity	89,311	69.9	47,326	61.4	33,346	61.7
Non-current liabilities and provisions	2,307	1.8	4,089	5.3	758	1.4
Current liabilities and provisions	36,145	28.3	25,687	33.3	19,905	36.9
Total assets	**127,763**	**100.0**	**77,102**	**100.0**	**54,009**	**100.0**

7. SEGMENTS

7.1 COMPONENTS & SYSTEMS (DOMESTIC AND INTERNATIONAL)

The Components & Systems segment is still focused on Germany. With Italy, Belgium, France and Spain, other markets have opened up in the segment of small and mid-sized photovoltaic systems. The Phoenix Solar Group is present in the respective markets through its regional partners. In Spain in particular, there are new prospects for this segment owing to the amendment of the Royal Decree on feed-in tariffs and the relatively favourable conditions promoting small to mid-sized roof-mounted systems.

The total revenues of the Components & Systems segment in the reporting year came to EUR 214.6 million as compared with EUR 129.3 million in 2007, which corresponds to a growth of 66 percent. In Germany, revenues soared by 59.2 percent in a year-on-year comparison. Revenues from international business increased by as much as 121.7 percent.

Orders on hand in the Components & Systems segment stood at EUR 33.7 million as per 31 December 2008. Domestic orders of EUR 32 million were 9,4 percent below the year-earlier figure, and international orders posted EUR 1.7 million on the reporting date, which is an increase of 339 percent over the previous year (2007: EUR 0.4 million).

7.2 POWER PLANTS (DOMESTIC AND INTERNATIONAL)

Revenues and the development of order volume throughout the year in the Power Plant segment again recorded strong growth throughout 2008. The fact that major projects in foreign countries made up a share of around 68 percent of the Power Plants segment's total revenues is striking.

By the end of the year, photovoltaic power plants with a total peak output of 49.8 MWp had been installed. In comparison with the same period in 2007 (31.3 MWp), this is an increase of 59 percent.

Whereas in the first quarter the focus of construction activities in the power plant business was on Germany, these activities were concentrated on southern Europe in the second and third quarter, particularly on projects in Spain. As the high feed-in remuneration in Spain for ground-mounted systems expired at the end of September, power plant construction at the end of the third quarter was focused increasingly on projects in Spain. The purchase of project rights and module volumes at short notice enabled more plants to be built than originally planned for. All projects commenced were completed on time before the expiry of the old subsidy program at the end of September 2008. Phoenix Solar installed more than 25 MWp in Spain in 2008 as compared with somewhat more than ten MWp in 2007.

Although activities were still concentrated on the completion of projects in Spain in the third quarter of 2008, projects were also initiated in Germany. In 2008, revenues in Germany came to EUR 59.4 million as against EUR 74.3 million in the previous year.

In Germany, a series of power plants totalling 23.8 MWp were built to schedule and connected to the grid or had construction work started on them. Phoenix Solar AG's largest roof-mounted project to date of 2.4 MWp is currently being built on behalf of a municipal energy utility.

The realisation of the first projects in the megawatt range in Italy was delayed through the bureaucratic hurdles, which have still not been dismantled, and through uncertainty as to the binding assessment under the law of the legal validity of official approvals as well as deficits with project developers. Construction work on the first power plants is now expected to start in the second half of 2009.

At the beginning of the third quarter, the building and commissioning of Greece's only one megawatt power plant to date in Pontoiraklia was completed.

All in all, the revenues of the Power Plants segment in the reporting year advanced to EUR 187.8 million, up from EUR 130.7 million in 2007, which is an increase of 43.7 percent. Revenues from international business alone soared by 128 percent.

Orders on hand of the Power Plants segment came to EUR 79 million as per 31 December 2008. Domestic orders stood at EUR 67.5 million which is higher than the previous year's figure (2007: EUR 35.7 million). International orders posted EUR 11.1 million on the reporting date which is a decline of 70.4 percent compared with 2007. This decline is mainly attributable to changes in Spanish regulations on feed-in tariffs at the end of the third quarter of 2008 and the ensuing halt to more major projects in this market.

The service centre in Ulm had raised its portfolio of connected power plants to 36 power plants with a peak output of 70 MWp (2007: 44 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 held on 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 6 February 2008.

The share capital came to EUR 132,000, divided into 132,000 bearer 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 4 million and profit from previous years, equity capital amounts to EUR 6.7 million.

At the end of 2008, the company had twelve employees.

PSI holds all the shares of Phoenix Solar Fonds Verwaltung GmbH (formerly Phönix SonnenFonds Verwaltungs GmbH); the main task of the latter is to manage Phönix SonnenFonds (solar funds). Phoenix Solar Fonds Verwaltung GmbH closed the financial year 2008 with a profit of kEUR 6. The company holds a 50-percent stake in SOLAR GRIECHENLAND Beteiligungs GmbH & 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.

In the reporting year, 100 percent of the shares in TPC Photoenergy srl, a company headquartered in Eppan an der Weinstraße (Italy) which holds the rights to a photovoltaic project in Italy, were purchased. Furthermore, 55.556 percent of the shares in Scarlatti Srl., a company headquartered in Eppan an der Weinstraße (Italy) with option rights to purchase five photovoltaic projects in Sicily, were also acquired.

The company participated in the development and realisation of twelve ground-mounted photovoltaic plants in the financial year on behalf of Phoenix Solar AG. 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 17 projects with a total volume of 38.9 MWp. Of this volume, 29 MWp were completed and invoiced in the reporting year. The completion of the other plants with an output of ten MWp has been scheduled for the first two quarters of 2009.

Of the aforementioned projects, seven projects with an output of 12.8 MWp were realised in Germany, four projects totalling 15.2 MWp in Spain and a project of 1.0 MWp in Greece.

The customer base was expanded to include more institutional investors with whom first projects are to be realised in 2009.

8.2 PHOENIX SOLAR S.L., SPAIN

In the year under review, the share of Phoenix Solar AG in this company was raised to 100 percent through the purchase of the shares of a former five percent minority holding. By the end of the year, the acquisition activities of the Phoenix Solar Group's Spanish subsidiary resulted in photovoltaic power plants with a nominal output of 9.7 MWp being built and connected up to the grid at the more favourable conditions prevailing under the old Royal Decree.

In terms of its revenues, the subsidiary recorded an increase of 148 percent in the reporting year as compared with 2007. Upon the expiry of the old feed-in remuneration and the introduction of Royal Decree 1578/2008, further growth in 2009 has been capped.

As a consequence of the changed legal framework conditions in Spain described above, there will in any case be a considerable reduction in market size which the subsidiary is responding to by concentrating its activities on smaller plants and trading with components and systems.

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. The company was included in the consolidated financial statements of Phoenix Solar AG in accordance with the International Accounting Standard IAS 27. The purchase price was fully funded (IAS 7.40).

After the first year of full consolidation, during which the company focused on building up its structure and sales competence, it achieved its first acquisition successes in 2008. This included a series of projects with a multiplier effect, such as the 70 kWp system on the new building of a department of the Ministry of Energy in Malaysia and a 300 kWp system on the newly constructed premises of a global solar group in Singapore. As a major part of the projects is planned for new buildings, there is a direct dependency on the progress of construction work on the respective building which may cause delays. All in all, there were orders for around 700 kWp on the reporting date of 31 December 2008.

Alongside these sales activities, in-depth investigation was carried out to assess the maturity of markets in other target countries, as well as initiating the first project developments together with local partners.

Revenues in 2008 stood at EUR 0.8 million (2007: EUR 0.1 million), with an EBIT of EUR – 0.2 million (2007: EUR – 0.3 million). Project planning under way for the year 2009 suggests considerable increases in revenues and profit.

8.4 PHOENIX SOLAR S.R.L., ITALY (FORMERLY RED 2002 S.R.L.)

Phoenix Solar AG has held 49 percent in the Italian system integrator RED 2002 S.r.l. since January 2006. In the 2007 consolidated financial statements the company was still disclosed at equity. Through the exercising of an option to purchase another 26 percent of the shares, the Italian subsidiary has belonged to the group of fully consolidated companies of the Phoenix Solar Group since 1 January 2008. The exercise of the aforementioned option and the purchase of the remaining shares of 25 percent were carried out on 28 July 2008. Accordingly, Phoenix Solar AG now holds 100 percent of the shares.

Along with the acquisition of projects in the Power Plants segment, the subsidiary's task will be to expand the Italian network of sales partners and installers, thus reinforcing the Components & Systems segment.

Interest in photovoltaic systems is growing in Italy. This is reflected by the increase of revenues realised in the reporting period which rose by 152.5 percent in a year-on-year comparison. The focus is currently on power plants up to a dimension of around 500 kWp. In respect of larger power plants, there is still uncertainty as to the financing and adherence to deadlines for connection to the grid.

Effective 1 January 2009, the company goes by the name of Phoenix Solar S.r.l.

8.5 PHOENIX SOLAR E.P.E., GREECE

Phoenix Solar E.P.E., with its principal place of business in Athens, was founded in June 2008 by Phoenix Solar AG. The company, which is wholly owned by the parent company, will expand existing sales activities in the power plant business in Greece by adding the Components & Systems segment. Phoenix Solar has thus completed another important step in its internationalisation strategy. The company's positioning in the high-growth Greek market will make an important contribution to expanding international business to more than 50 percent of the total revenues of the Phoenix Solar Group by 2010.

8.6 PHOENIX SOLAR PTY LTD, AUSTRALIA

Phoenix Solar AG founded a wholly owned subsidiary in Australia on 1 July 2008. Phoenix Solar Pty Ltd, with its principal place of business in Adelaide, will serve the whole Australian continent. The Australian subsidiary's task will initially be to replicate and build up the business model of the parent company with its segments of power plants and wholesale business for photovoltaic systems, modules and components.

The company's location in Adelaide was selected because, as yet, this state has the most progressive solar subsidy program in Australia. As a result, in the first months of its incorporation the company succeeded in installing two photovoltaic systems in Sydney and Alice Springs. The still young subsidiary is nonetheless struggling with problems in sourcing modules. The depreciation of the Australian currency also meant that the costs of sourcing modules and other components was considerable, a potential hindrance which was, however, compensated for the most part by the company's integration into the parent company and the latter's procurement management.

9. PROCUREMENT AND PURCHASING

The photovoltaic market continued to be impacted in the first three quarters of the reporting year by the shortfall in modules with global demand running unchanged at a very high level. Surges in demand, triggered by developments such as in Spain, have met with a marginal increase to date in higher capacity on the supply side as against the previous year. The procurement of crystalline modules was particularly affected.

During the reporting period, the procurement volume of modules in the Phoenix Solar Group grew 81 percent to 130 MWp as against the previous year's figure. This increase in the procurement volume was taken account of by the expansion of logistics and procurement resources within the Group.

The growth targets of the Phoenix Solar Group determine its procurement strategy for the most part. This strategy is aligned to achieving a balanced product portfolio, characterised by a broad range of existing module technologies and market-oriented prices. Emphasis is placed on the suitability of modules for the Components & Systems segment as well as for power plant construction in order to facilitate a swift interchange for marketing and distribution in both segments. The implementation of this strategy ensures the requisite supply volumes for the Group, accompanied by annual price reductions. To this end, contracts are signed with selected suppliers and stringent quality criteria are established. Over the course of the year, the group of manufacturers with whom long-term delivery agreements have been signed was extended to include Signet and Solyndra for thin-film modules.

One of the main challenges for procurement in 2008 was to purchase the volume of modules needed for the boom phase up until the end of September in Spain in good time in order to be able to hand over the projects of the Group in this country on schedule to the investors.

The international financial crisis also had an impact on the procurement activities of the Phoenix Solar Group. At an early stage, when the first signs of the crisis became evident, the procurement selection procedure was supplemented to include the stringent monitoring of liquidity and the credit standing of suppliers in cooperation with risk management.

The overall broad-based long-term agreements enabled Phoenix Solar AG to lay the cornerstone for steady growth at an early point in time. In procurement negotiations currently being conducted, this has proven to be advantageous to the Group, as future price developments can be viewed from a safe position. A recognisable risk resulting from the lower pace at which prices develop with long-term agreements is to be compensated by ongoing subsequent negotiations in order to keep abreast of the general price trends in the photovoltaic market.

The Phoenix Solar Group has always placed special emphasis on the hedging currency risks in procurement and their impact on the price of goods and services outsourced. A currency hedging strategy with a long-term horizon and discussions held in good time with suppliers counteracted potential disadvantages for the Group at an early stage.

The hiring of more expert staff in the areas of the procurement and logistics served to enhance the efficiency of this important department in the course of 2008 and to take account of the greater requirements placed on capacity. Concepts for reducing the volume of inventories and the curtailing of delivery times and routes were developed in the reporting year and prepared for implementation in 2009.

In the year ahead the company expects further price declines in the range of around at least ten percent for modules which will first and foremost benefit the market in Germany, then likely to be the world’s largest market.

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 reduction of system costs, indirectly envisaged by the German Renewable Energies Act (EEG) or comparable market launch programs through the lowering feed-in tariffs, can 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 jigs, cabling and inverters, as well as engineering and installation.

The PowerBridge®, introduced at the Intersolar 2007, is an absolute innovation. The PowerBridge® enables projects to be realised more cost effectively than before on slanted and flat roofs which, for statistical reasons require a span of several metres, or where formerly no solar systems could be mounted. The PowerBridge® won the Intersolar AWARD in 2008, a prize for innovation conferred by a jury.

Cabling systems for large power plants were also improved through the newly developed standardised generator junction boxes with optimised technology and increased cost effectiveness.

Work on developing assembly systems and the first assembly tests were carried out on the new thin-film modules of up to 5.6 square meters which are suitable for greenfield sites and which will be available in the market from 2009.

A highlight of the reporting year was the qualification and release of the Solyndra module used to build test systems in Germany and Singapore and the verification of the output or energy yield in comparison with flagship systems and yield forecasts. Owing to the way it works and its technical design, the Solyndra module, which is based on CIGS thin-film solar cells, is a completely new module concept in photovoltaics. In respect of energy yield, its construction principle makes it largely independent from the angle at which it is set up. In addition, the impact of the wind forces on the module design is so low that no additional weighting or penetration of the roof is necessary. The product is therefore ideal for use on reflective roofing material where additional weight must be kept to a minimum.

Furthermore, the market maturity as well as the future prospects of new products or those which have been developed further are screened in an ongoing process. Important criteria in this development are the focus on technological maturity, cost-cutting potential and economic viability in a market environment which is 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

To remain on the road to success we need the enthusiasm and commitment of our employees. The continuous development of our employees is what makes the dynamic growth of the Phoenix Solar Group possible. Targeted personnel development measures with a training catalogue specially developed for Phoenix enables expert and management positions to be filled within the Group and opens up career prospects for each individual employee. Examples of this are management training, team building measures, specialist seminars and language training which were offered in the reporting year.

In 2008, we also offered four young people the possibility of completing vocational training at Phoenix Solar AG. The trainees are mentored at Phoenix via regular feedback and team discussion, exam preparation and English training. Up until now the ratio of trainees offered positions has always been 100 percent. Phoenix Solar AG cooperates with vocational training schools and the Munich Chamber of Commerce. The range of practically-oriented internships and degree dissertations is being extended on an ongoing basis and in many cases leads to the young people completing this process being offered a position in the company.

By the end of the year, the number of staff had risen to 205 employees through the hiring of 53 experts and managers.

We view the induction of new colleagues as an important process. "Welcome Days", structured plans for induction and a qualifying probation period is intended to facilitate the process during which new employees "learn the ropes".

Along with the customary measures for recruiting, the Group increasingly takes advantage of the option of addressing potential employees at national and international photovoltaic trade fairs such as, for instance, Munich's Intersolar, trade fairs in foreign countries and contacts with universities.

The Phoenix Group wishes to continue to win outstanding experts and managers, a goal in which personnel marketing will play an increasingly significant role.

Employees of all ages and from 17 countries combine traditional values with new ideas. Fostering the common interest is our strength. Team spirit and the integration of new employees throughout the company are promoted through arranging two to three company events a year.

A "Non Executive Board" with members selected by the Board of Directors and the Supervisory Board was set up in the reporting year. Its goal is to leverage internal competences and expertise as a strategic advisory committee to the Board of Directors.

The "Management by Objectives" management tool was developed further. The career path model was more intensively linked with the process of agreeing objectives. The remuneration model valid for the whole Group comprises a variable component which is linked to the career path model, alongside a fixed component. The goals of each individual employee are therefore closely connected with the overarching corporate goals. This variable component serves to guarantee a high degree of employee identification with the corporate goals.

Furthermore, the employees of Phoenix Solar AG also benefit from an attractive company pension scheme offered since mid-year 2008.

Our corporate culture is hallmarked by the core values of "Shared Common Interest, Competence, Commitment and Diversity". Our cooperative management style promotes and calls for entrepreneurial thought and action by each individual employee. Our work together is characterised by the tenets of honesty, openness and understanding across departments. Mutual support and respect are our constant companions along the path to achieving our goals.

The passion and conviction of our employees that they are working for something which is worthwhile are key factors for the success of the Phoenix Solar Group. This is why personnel work at Phoenix Solar AG is becoming increasingly important.

12. ENVIRONMENT AND CORPORATE RESPONSIBILITY

In its business relationships the Phoenix Solar Group regards human rights and the environment as some of our greatest assets. The Phoenix Group only markets and sells products which, when used, contribute to protecting the climate. Photovoltaic systems generate energy from sunlight. The plants operate silently and do not emit damaging substances. Over their life cycle around ten times more energy is generated than was needed for their construction. They therefore make an important contribution to reducing CO_2 emissions and at achieving an energy mix which is compatible to the greatest extent possible with the climate and the environment.

In carrying out construction work on the photovoltaic power plants of the Phoenix Solar Group, all nature conservation and environmental covenants from construction plans are adhered to, controlled and monitored. In this process environmental standards are even surpassed: assembly systems for ground-mounted photovoltaic plants, for instance, do not require any concrete foundations, which means that surfaces are not sealed and can be reused upon full decommissioning. Regulations on construction work issued by the NABU (German association for the protection of nature) and of the BSW (German Federal Association of Solar Energy) are complied with.

Along with ongoing quality management, security standards are regularly reviewed. Suppliers must produce evidence of a quality assurance process.

Phoenix Solar AG supports sports associations and social organisations mainly in the region by making donations. The "Upper Bavaria Energy School" education project, designed to appeal to children, teenagers and adults, was also promoted with the aid of Phoenix Solar through contributions in kind. Accessories for Phoenix Solar turn-key plants are custom-made by a Caritas workshop staffed by disabled people in the area.

Energy conservation and the sustainable handling of raw materials in everyday work have the highest priority at Phoenix Solar AG. At the heart of the management system is the establishing of internal workflows and responsibilities and the training of those responsible on the regular control and improvement of environmental aspects within the company. For instance, the offices in Sulzemoos have been heated by a wood chippings thermal power plant since January 2007. The wood chippings are sourced mainly from the neighbouring forests. In erecting new buildings and carrying out renovation the emphasis is on using environmentally compatible building materials.

The vehicle fleet is subject to regulations on engine capacity, fuel consumption and CO_2 emission. In addition, drivers are trained in how to keep fuel consumption to a minimum. Delivery routes and rhythms are also coordinated with the suppliers with a view to reducing CO_2 emissions.

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 is evidence that they produce exclusively paper from recycled materials. Office material is sourced from an ecologically sound retailer.

13. OPPORTUNITIES AND RISK REPORT

13.1 THE RISK MANAGEMENT SYSTEM

The Phoenix Group has based its definition of "risk" on the definition under 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, 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 employees responsible for risk 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. In the reporting year, the special focus of risk management was on the monitoring, analysis and evaluation of the impact of the international financial crisis on the Group.

13.2 SPECIFIC RISKS / MATERIAL OPPORTUNITIES AND RISKS

Whereas, in the first months of 2008, the majority of the opportunities and risks captured by Phoenix Solar AG's risk management were associated either directly or indirectly with corporate growth, as the year progressed the opportunities and risks increasingly identified as the result of the international financial crisis took the centre stage.

The potential impact of the crisis in the global financial market and how it influences the procurement and selling market risks of the Phoenix Group are analysed on an ongoing basis, screened and evaluated and, from the start of the crisis, became one of the focal points of the risk management operations of the Group.

The management and control of the potential consequences of the crisis, particularly in connection with the growth-induced increase in the number of suppliers and customers, is carried out through the consistent building up of receivables management and supply control with an integral component of credit standing monitoring.

POLITICAL FACTORS

The still prevailing dependency of the national photovoltaic markets on government subsidies also harbours a certain risk for the Phoenix Solar Group as, without the necessary government subsidies for customers and investors, investment in photovoltaic systems would not yield sufficient return, especially as electricity generated by conventional suppliers which do not operate in the area of renewable energies has currently become more reasonably priced.

The amendment to the German Renewable Energies Act (EEG) in the second quarter has put an end to the persistent uncertainty about legal issues in the German photovoltaic market, thereby reducing the inherent risk while, at the same time, presenting the opportunity of taking swifter advantage of selling opportunities in the third and fourth quarters.

Another far-reaching amendment in the legal framework conditions took place at the end of the third quarter in Spain with the new regulations governing feed-in remuneration in this country. Given that the Spanish market, as part of Phoenix Solar AG's growth strategy, came second after Germany for many years, it is vital to grow in existing and penetrate new markets to secure the steady growth of the company. As this applies to all competitors active in the Spanish market in the financial year ended, it can be assumed that the competition in the German market in particular will intensify in the time that lies ahead. This will result in a greater crowding out risk for Phoenix Solar AG and its peer competitors.

MARKET, COMPETITION AND EXTERNAL FACTORS OF INFLUENCE

In its business of wholesale trading in 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.

The potential expiry of the option of recourse in relation to suppliers from guarantee claims could also place additional financial burden on Phoenix Solar AG.

A general trend towards higher interest rates will have a direct 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.

Towards the end of 2008, potential investors of large photovoltaic plants were also feeling the effects of the financial crisis. As the financing of projects by banks was becoming subject to increasing restrictions there were delays in the realisation of projects planned and the search for suitable investors is likely to become more difficult and more time intensive in the future.

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, with the signing of a syndicated loan with a three-year term, has secured its corporate finance in the medium term. The granting of the syndicated loan is subject to covenants. If the covenants are not fulfilled, this may result in the syndicated credit line no longer being available, with the inherent risk that the future growth envisaged cannot be achieved due to finance shortfalls. This entails monitoring that the covenants are fulfilled in order to ensure that the preconditions for granting the loan are fulfilled at all times.

The price of the Phoenix share was unable to decouple from the share price losses on the stock markets triggered by the general financial crisis. Although the share price rallied temporarily it is significantly below its highest levels, which means that the possibility of a majority takeover owing to low market capitalisation is not precluded.

PROCUREMENT RISKS

In the final quarter of 2008, there were, on the one hand, the first warnings of a growing volume of modules and, on the other, the spreading of the financial crisis and the anticipation of price declines of module consumers caused general demand to fall. If the forces in the market shift through the ramping up of production capacity accompanied by slowing demand, this may cause prices to drop. These potential fluctuations in the price of modules constitute a risk connected with the inventory levels disclosed as per the reporting date. On the basis of our estimate on how the market will develop in future, this risk was counteracted through the respective adjustments to inventories as per 31 December 2008.

With the aim of securing its own supplies and to stabilise prices, Phoenix Solar AG has availed itself of long-term supply agreements with module manufacturers for years. In times when the market is impacted by bottlenecks in the supply of modules, this was an effective instrument for securing opportunities in the market and for growth. Upon the first signs of an oversupply of modules, long-term agreements hamper the swift response time to prices tumbling in the market and raise the risk of inventory stock piling through purchase commitments, an effect which is, in turn, compounded by the risk of having to write down inventories in order to achieve selling prices in line with the market. If the parent company has to fulfil its obligations up to the minimum purchase volume, without being able to sell components delivered, this would have a substantially negative effect on the earnings, financial position and net worth of the company.

The company's response to this risk is to practice active management and control and to coordinate the sales and distribution activities of its two core segments of power plant construction and trading in components and systems, as well as through conducting procurement negotiations with suppliers. In its selection of partners for this type of long-term agreement, Phoenix Solar has placed particular importance on qualitative aspects as well as the willingness to cooperate and the ability to respond flexibly to changing market conditions and attractive prices by having a sliding scale of diminishing prices.

Technical innovations and their compatibility with the environment in the subsequent application of modules and other components which are part of photovoltaic plants, even at the manufacturing stage, are becoming an increasingly topical issues for the public at large. The yardstick for acceptance in respect of environmental compatibility is always aligned to the technical standard last achieved. Phoenix Solar places much emphasis on this aspect in the composition of its portfolio. The possibility of products not being able to fulfil future standards cannot, however, be discounted. In this case, the company may be faced with additional financial burdens.

More extensive currency risks in the wake of the financial crisis, especially in the case of deliveries denominated in US dollars (USD) or Japanese yen (JPY), have always been covered by the Group by a currency hedging strategy based on the underlying and a broad product and supplier portfolio which gives it other options at short notice.

COMPANY GROWTH

Forging ahead with international expansion, especially with project development and the completion of construction of photovoltaic plants abroad, is first and foremost subject to significantly greater risks in terms of development costs and times as well as completion than in Germany. Dedicating increasing efforts to tapping new markets in particular may result in delays and higher costs as against the original, intentionally conservative planning.

Company expansion on the back of growing business activities is also an increasing challenge to the structure and central administration units of the company. As the adjustment of these two elements has not yet been able to keep pace with the progress of growth at the operational level, there may be a temporary organisational risks owing to the delay in building up appropriate administration resources.

Given the swift growth of the company, securing its established, long-term position in the market necessitates a steadily growing number of experts, their careful induction into workflows and an ongoing optimisation of existing processes. The current lack of skilled employees is what may prove to be a factor which limits the process of growth, as the need for such expertise cannot be adequately covered and fluctuation owing attempts by competitors to entice highly qualified managers away is set to intensify, not least owing to established and new market participants. In this respect, the Group is highly dependent on the successful acquiring of personnel, further training and the ability to foster long-term employee loyalty.

The founding of new subsidiaries abroad and the need for managers raises the requirement for experts to take on managerial tasks in local sales companies, requiring the corresponding induction and acclimatisation periods before full effectiveness can be achieved.

An accompanying factor of an expansion, which includes countries outside the EU, also harbours a considerably higher risk in respect of 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.

INFRASTRUCTURE AND OTHER ASPECTS

The selection of a new Enterprise Resource Planning (ERP) system which can accommodate current and future requirements is intended to help link up all units and functions of the company more closely and to optimise the processing of information. The setting in place and maintaining of interfaces between the existing data processing systems constitutes an additional burden on some of the process sequences. Before sustained synergy effects can be leveraged from the groupwide ERP system, however, the process of implementation will claim and tie up the resources available, in addition to daily business.

A general tax audit has been announced by the tax authority responsible for mid-year 2009. Along with the general entrepreneurial risks, this may give also rise to financial risks for the Group.

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 discernable 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

Phoenix Solar Energy Investments AG, a wholly owned subsidiary of Phoenix Solar AG, acquired all the shares in Scarlatti Srl., a company headquartered in Eppan an der Weinstraße, Italy, with immediate effect as from 13 January 2009. Scarlatti holds the shares in four project companies under the condition precedent of achieving a status where construction can ultimately begin. These companies will develop a total of five projects for the construction of photovoltaic systems in Sicily with an overall peak power output of around 27 megawatt. Given successful project development, the construction of these plants has been scheduled for 2009 and 2010.

On 14 January 2009, Phoenix Solar AG, with the support of Phoenix Solar Energy Investments AG, raised the volume of the framework agreement signed in September 2007 with Grünwald-based KG Allgemeine Leasing GmbH & Co. (KGAL) by EUR 150 million and extended it up until 2011. The parties to the contract agreed that the Phoenix Group will develop large photovoltaic plants on behalf of KGAL and build them in the capacity of general contractor. The investment volume for the period from 2009 to 2011 comes to at least EUR 375 million. The target markets for the construction of the power plants are Germany, Spain, Italy, Greece and France and, in future, other countries where the economic conditions are also suitable for photovoltaic systems.

15. GUIDANCE

The impact of the global financial crisis on the real economy is currently difficult to assess with any degree of accuracy. All forecasts, however, predict that the crisis in the financial markets will continue to place a considerable burden on the development in the goods and services markets.

Accordingly, in 2009 there is a considerable economic downturn in the offing. In the most recent estimates, which have been repeatedly revised downward, the International Monetary Fund (IMF) anticipates that global economic growth in 2009 will come to a mere 0.5 percent which is way below the 3-percent threshold defined by the IMF as the borderline to recession.

The industrialised nations will in all probability be particularly hard hit by the crisis and will see their economic output contract by two percent. In Germany, gross domestic product is expected to decline by 2.5 percent in an annual average. This would make it the deepest recession since the founding of the Federal Republic of Germany. In the labour market the dramatic economic slump is expected to lead to jobs being shed and an ensuing increase in the jobless rate in the years 2009 and 2010. By contrast, inflationary pressure is expected to fall swiftly owing to the downturn in the prices of energy and raw materials caused by the recession, thereby easing the burden on the budgets of private households.

Even if the financial measures introduced by the German government to bolster the economy are effective and the easing of monetary policy releases its full impact, a recovery in the German economy can at best be expected in the second half of 2009. In what condition the financial system will be in over the course of the year 2009 is currently difficult to foresee given the slew of negative news.

At the global level, despite the extensive measures launched by governments and central banks to support the economy, there is likely to be an only gradual recovery in the economy.

Against the background of the unexpectedly high growth in the Spanish market in 2008, which comes to around 2.4 GWp, and in view of the 500 MWp cap introduced in Spain in 2009, the

Phoenix Group anticipates it will be impossible to compensate for the remaining leeway for market growth of photovoltaics and the decline in installation in Spain. The possibility of the global market stagnating in 2009 cannot be discounted. We nonetheless consider the general conditions in countries where Phoenix Solar operates to be stable. In addition, we expect improvements in existing markets (Greece, for instance), and following on from the inauguration of President Obama considerably improved general conditions for photovoltaics in the USA from 2010 onwards.

We set the revenue growth of the Group at around EUR 520 million and the EBIT at approximately EUR 31 million in 2009. More than 35 percent of revenues are to be generated by international business. In the years ahead, we expect to make significant progress with growth. On 27 January 2009, the Board of Directors released its long-term outlook for the development envisaged for the company up until the year 2013: it anticipates consolidated revenues of EUR 1.5 billion and a Group EBIT of EUR 100 million. The share of international business is to have risen to more than 65 percent by then.

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

Sulzemoos, 19 March 2009
Phoenix Solar Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel
(Chief Executive Officer)

Manfred Bächler
(Chief Technology Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Sabine Kauper
(Chief Financial Officer)

Ulrich Reidenbach
(Chief Sales Officer)

A supply risk which is 430,163 units smaller

In 2008, a thousand rails were laid by Phoenix Solar – piece by piece – during the process of assembling modules. Each time our site managers carefully examined whether our system technology was able to realise our idea of clean energy generated on a sustainable basis in practice. This worked well exactly 430,163 times.

Consolidated Financial Statements 2008

for the financial year from
1 January 2008 until 31 December 2008
pursuant to IFRS

CONSOLIDATED INCOME STATEMENT

for the period from 1 January 2008 until 31 December 2008

in k€	Notes C. & D.	2008	2007
Revenues	(1)	402,494	260,118
Increase / decrease in the level of contracts in process	(2)	16,872	0
Overall performance		**419,366**	260,118
Other operating income	(3)	3,699	1,144
Cost of materials	(4)	356,492	220,881
Personnel expenses	(5)	12,478	7,956
Depreciation and amortisation	(6)	425	313
Other operating expenses	(7)	19,867	9,908
Operating result		**33,803**	22,204
Result from associated companies	(8)	20	55
EBIT		**33,823**	22,259
Financial income		711	414
Finance costs		1,088	1,101
Financial result	(9)	**– 377**	– 687
Consolidated net income before income taxes (EBT)		**33,446**	21,572
Income taxes	(10)	9,767	7,101
Profit net of minority interest		**23,679**	14,471
Profit due to minority interest	(27)	20	10
Consolidated net income for the period		**23,699**	14,481
Earnings per share			
Earnings per share (basic)	(11)	3.63	2.38
Earnings per share (diluted)	(11)	3.62	2.38

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

ASSETS

in k€	Notes C. & D.	31/12/2008	31/12/2007
Non-current assets			
Intangible assets	(12) (15)	547	809
Goodwill	(13) (15)	533	292
Property, plant and equipment	(14) (15)	1,651	1,218
Investments in associated companies	(16)	436	991
Other participating interests	(17)	160	160
Non-current receivables	(18)	490	500
Deferred tax assets	(10)	99	0
Other financial assets	(23) (24)	1,417	1,361
Total non-current assets		**5,333**	**5,331**
Current assets			
Inventories	(19)	75,975	25,442
Prepayments	(20)	1,444	2,407
Receivables from long-term construction contracts	(21)	735	9,298
Trade receivables	(22)	24,849	18,315
Other financial assets	(23) (24)	2,514	1,747
Other non-financial assets	(25)	9,368	549
Actual tax claims	(10)	10	13
Cash and cash equivalents	(26)	7,535	14,000
Total current assets		**122,430**	**71,771**
Total assets		**127,763**	**77,102**

LIABILITIES AND SHAREHOLDERS' EQUITY

in k€	Notes C. & D.	31/12/2008	31/12/2007
Equity			
Subscribed capital	(27)	6,685	6,077
Capital reserve	(27)	40,433	20,309
Other reserves	(27)	542	1,568
Currency translation reserve	(27)	– 30	– 28
Unappropriated retained earnings	(27)	41,678	19,316
Minority interest	(27)	3	84
Total equity		**89,311**	**47,326**
Non-current liabilities and provisions			
Non-current financial liabilities	(28)	0	50
Non-current provisions	(29)	1,773	615
Deferred tax liabilities	(10)	534	3,424
Total non-current liabilities and provisions		**2,307**	**4,089**
Current liabilities and provisions			
Current financial liabilities	(28)	53	73
Liabilities from long-term construction contracts	(21)	0	427
Trade payables	(30)	14,644	13,806
Other financial liabilities	(31)	4,793	1,772
Other non-financial liabilities	(31)	4,538	6,592
Current provisions	(29)	1,217	822
Actual tax liabilities	(10)	10,900	2,195
Total current liabilities and provisions		**36,145**	**25,687**
Total liabilities and shareholders' equity		**127,763**	**77,102**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January 2008 until 31 December 2008

in k€	Notes C. to E.	Subscribed capital	Capital reserve	Other reserves	Currency translation reserve	Unappro-priated retained earnings	Minority interest	Total
As per 1 January 2007		**6,077**	**20,255**	**1,568**	**–**	**5,443**	**3**	**33,346**
First-time consolidation of Phoenix Solar Pte. Ltd., Singapore	(13)	0	0	0	0	0	91	91
Reserve for share options	(40)	0	54	0	0	0	0	54
Differences from currency translation	(27)	0	0	0	– 28	0	0	– 28
Dividend distribution	(27)	0	0	0	0	– 608	0	– 608
Consolidated net income in 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**
As per 1 January 2008		**6,077**	**20,309**	**1,568**	**– 28**	**19,316**	**84**	**47,326**
First-time consolidation of RED 2002 S.r.l., Italy*	(13)	0	0	0	0	0	302	302
Purchase of minority holding in RED 2002 S.r.l., Italy	(27)	0	0	– 932	0	0	– 302	– 1,234
Purchase of minority holding in Phoenix Solar S.L., Spain	(27)	0	0	– 94	0	0	– 65	– 159
First-time consolidation of project company Scarlatti Srl., Italy		0	0	0	0	0	4	4
Reserve for share options	(40)	0	372	0	0	0	0	372
Dividend distribution	(27)	0	0	0	0	– 1,337	0	– 1,337
Capital increase (after deduction of net capital increase costs)	(27)	608	19,752	0	0	0	0	20,360
Difference from currency translation	(27)	0	0	0	– 2	0	0	– 2
Consolidated net income in 2008		0	0	0	0	23,699	– 20	23,679
As per 31 December 2008		**6,685**	**40,433**	**542**	**– 30**	**41,678**	**3**	**89,311**

* RED 2002 was renamed as Phoenix Solar S.r.l. effective 1 January 2009

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2008 until 31 December 2008

in k€	Notes C. to E.	2008	2007
Consolidated income before taxes and minority interests		33,446	21,572
Depreciation and amortisation	(6) (15)	425	313
Other non-cash income (–) and expenses (+) (incl. result from associated companies)	(8) (34)	5,625	– 190
Result from the disposal of property, plant and equipment	(15)	5	1
Financial income	(9)	– 711	– 414
Finance costs	(9)	1,088	1,101
Sub-total		39,878	22,383
Increase / decrease in provisions (net of discounting effects and non-cash releases)	(29)	1,440	845
Increase / decrease in inventories	(19)	– 51,853	– 4,771
Increase / decrease in prepayments	(20)	964	– 45
Increase / decrease in receivables from long-term construction contracts	(21)	8,563	– 9,272
Increase / decrease in trade receivables (excl. non-cash transactions)	(22)	– 7,990	– 2,405
Increase / decrease in assets	(24)	– 9,625	– 2,985
Increase / decrease in liabilities	(31)	376	5,860
Funds generated by operating activities		– 18,247	9,610
Interest paid		– 1,537	– 1,101
Income tax paid		– 3,844	– 3,721
Cash flow from operating activities		**– 23,628**	**4,788**
Income from associated companies	(16)	50	47
Proceeds from the sale of assets		11	0
Purchase of intangible assets and property, plant and equipment	(15)	– 1,286	– 1,148
Purchase of shares in consolidated companies	(13) (27)	– 1,229	– 286
Start-up costs of Phoenix Solar E.P.E.	(13)	– 5	0
Cash flow from investing activities		**– 2,459**	**– 1,537**
Proceeds from the capital increase	(27)	20,360	0
Dividend distribution	(27)	– 1,337	– 608
Payments in connection with financial liabilities	(28)	– 101	– 44
Interest income	(9)	698	232
Cash flow from financing activities		**19,620**	**– 420**
Changes in cash and cash equivalents		– 6,467	2,831
Currency-induced changes in cash and cash equivalents		– 1	0
Consolidation-related changes in cash and cash equivalents	(27)	3	0
Net changes in cash and cash equivalents		**– 6,465**	**2,831**
Cash and cash equivalents at the start of the period		14,000	11,169
Cash and cash equivalents at the end of the period	(26)	7,535	14,000
Increase / decrease in cash and cash equivalents		**– 6,465**	**2,831**

Notes to the Consolidated Financial Statements

of Phoenix Solar Aktiengesellschaft,
Sulzemoos,
to the IFRS Consolidated Financial
Statements for the Financial Year 2008

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As per 31 December 2008, the Group of Phoenix Solar Aktiengesellschaft (hereinafter also called Phoenix Group) was made up of a group of companies of ten companies with 205 employees (including the members of the Board of Directors).

The parent company of the Group is a German stock corporation and, in accordance with a resolution passed by the regular Annual General Meeting of the former Phoenix SonnenStrom Aktiengesellschaft on 25 May 2007, the parent company of the Group now goes by the new name of Phoenix Solar Aktiengesellschaft (hereinafter: Phoenix Solar AG) with its principal place of business in Hirschbergstraße 8 in 85254 Sulzemoos, Germany; the company has been entered into the Commercial Register of the District Court of Munich under the number HRB 129117.

The parent company has belonged to the German TecDAX since 25 March 2008. The TecDAX is part of the Prime Standard segment of Deutsche Börse AG and comprises 30 of the 35 largest technology companies below the DAX measured by market capitalisation and order book turnover.

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 Phoenix Group builds systems which generate energy from sources of renewable energy and sells components and systems for the production of energy from renewable sources of energy mainly in the euro area and in addition in Asia and Australia.

In the financial year ended, two new subsidiaries were founded: Phoenix Solar E.P.E. in Athens, Greece, and Phoenix Solar Pty Ltd in Adelaide, Australia. Moreover, the holdings in Renewable Energies Development 2002 (RED 2002) S.r.l. in Rome (now renamed as Phoenix Solar S.r.l.), Italy, and Phoenix Solar S.L. in Madrid, Spain were raised to a full 100 percent respectively. For the purpose of optimising sales activities in the Italian market, Phoenix Solar Energy Investments AG, Sulzemoos, Germany, has set up to project companies partly held by minority interest. These two project companies are called TPC Photoenergy srl (wholly owned) and Scarlatti Srl. (55.56 percent), both headquartered in Eppan an der Weinstraße, Italy.

(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.

Phoenix Solar AG therefore prepares its annual 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 2008 and the earlier interpretations of the Standing Interpretations Committee (SIC), as well as the additional rules set out under Section 315a of the 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 acquisition method, to the exception of the attributable fair value model applied in the 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 EUR is used, kEUR (thousands of euros) for instance, this will be indicated by the respective denomination.

To achieve a more transparent presentation, items have been combined in the consolidated balance sheet as well as in the consolidated income statement and disclosed separately and explained in the Notes to the Consolidated Financial Statements in accordance with the principle of materiality.

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 net assets, financial position and result of operations of the Group are, in particular, estimates of the degree of completion in line with the percentage-of-completion (PoC) 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 as well as the recognition and measurement of provisions set up for the respective contingent commitments.

a) New standards, adjustments and interpretations applicable in 2008
IFRIC 14, "IAS 19 – Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", lays down general guidelines which serve to determine the maximum amount of the surplus of a pension fund that can be recognised as an asset pursuant to IAS 19. The standard also explains how statutory or contractual minimum funding requirements may affect the assets or liabilities of a pension scheme. Under IFRIC 14, no additional liability need be recognised by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. IFRIC 14 is mandatory for annual periods beginning on or after 1 July 2008. Earlier application is permitted. This interpretation has no impact on the consolidated financial statements as the Phoenix Group does not have any obligations arising from defined benefits from a pension fund.

IFRIC 11, "IFRS 2 Group and Treasury Share Transactions", determines how IFRS 2 is to be applied to share-based remuneration arrangements, which includes the equity instruments of a company or the equity instruments of a company within the same group (e.g. of the parent company). The interpretation requires that a share-based remuneration arrangement under which a company receives goods or services in compensation for its equity instruments must be accounted for as an equity-settled share-based payment irrespective of how the requisite equity instruments are received. Moreover, IFRIC 11 clarifies whether share-based remuneration agreements under which the suppliers of goods or services of a company receive equity instruments of the parent company are to be recognised as cash-settled share-based payment or as equity-settled share-based payments in the financial statements of the company. The interpretation is to be applied to annual periods beginning on or after 1 March 2007. Pursuant to IAS 8, a company is required to apply the interpretation in accordance with the transition standards defined under IFRS 2. This interpretation has no effect on the accounting in the consolidated financial statements.

b) Early application of standards, amendments 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. Clarification published in May 2008 by the IASB as part of the review of individual standards which appears once a year specifies the concept of "financing costs" and establishes that it must be taken in the context of and accord with the wording of IAS 39, and that the effective interest rate method is therefore to be applied to recognised interest expenses.

IFRIC 15, "Agreements for the Construction of Real Estate", addresses accounting for the sale of real estate prior to completion of its construction. Although the business activities of the Phoenix Group are not directly comparable with those to which the regulating purpose of the interpretation applies, there are certain parallels in respect of the identification of revenue recognition which could have an indirect impact on the recognition of revenue in the Power Plants segment.

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 is mandatory for annual periods beginning on or after 1 January 2008; these standards do not, however, have any impact on the consolidated financial statements of the Phoenix Group.

They are as follows:
- IFRIC 12, "Service Concession Arrangements", and
- IFRIC 13, "Customer Loyalty Programmes".

d) Standards, changes and interpretations, the application of which is neither mandatory nor which are applied at an earlier date
The following standards, changes and interpretations had been published by the balance sheet date and are mandatory as from 1 January 2009 at the earliest:

The IASB released a new version of IAS 1 (new version), "Presentation of Financial Statements", on 6 September 2007. The main amendments in comparison with the preceding version are that a company must disclose all non-owner changes in equity (i.e. the "comprehensive income") either in a single statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). The components of comprehensive income may not be disclosed in the statement of changes in equity. Furthermore, the standard requires that, as part of a complete set of financial statements, the balance sheet at the start of the earliest comparable period must show whether the company has applied an accounting or valuation method retrospectively or if it has made the decision for a retrospective new presentation. Moreover, in respect of income tax, the income taxes levied on each component of other comprehensive income must be disclosed. The requirement that the effect arising from adjustments made owing to reclassification of equity in respect of components of other comprehensive income must be disclosed separately still applies. The revised version of IAS 1 will be mandatory for annual periods on or after 1 January 2009.

IFRS 2 (new version), "Share-based Payment", was amended on 17 January 2008 by the IASB in order to clarify the terms "Vesting Conditions" and "Cancellation". Vesting conditions comprise only profit and performance-related conditions. Other aspects of a share-based payment do not constitute vesting conditions. Under IFRS 2, the aspects of a share-based payment which do not constitute vesting conditions are to be accounted for at the fair value of the share-based payment at the time when it was granted. Cancellations are also to receive the same accounting treatment whether they are carried out by the company or other parties. Under IFRS 2, cancellations of equity instruments are to be capitalised as a form of accelerated exercise. The Phoenix Group will apply this standard as from the 1 January 2009; no effects are anticipated from first-time application.

IAS 32 (new version), "Financial instruments: Disclosure and Presentation", and IAS 1 (new version), "Presentation of Financial Statements", comprise changes which are summarised in a document entitled "Puttable Financial Instruments and Obligations arising on Liquidation" which also contains minor amendments to IFRS 7, IAS 39 and IFRIC 2. The amendments mainly apply to questions of distinguishing between equity and financial liabilities. The new version focuses particularly on the option of classifying puttable instruments as equity under certain circumstances. From a German standpoint, the amendments are first and foremost relevant to commercial partnerships which, up until now, have been required to disclose capital under company law as liabilities owing to the termination rights of shareholders. The Phoenix Group has planned to apply these amendments for the first time as from 1 January 2009. No notable effects on the net assets, financial position and results of operation of the Group are envisaged. The amendments are to be applied to the annual periods on or after 1 January 2009. Earlier application is permitted. However, whether the amendments will be enacted under European law remains to be seen.

IFRS 1 (new version), "First-Time Adoption of International Financial Reporting Standards; this standard provides for a simplification in the valuation of participating interests in separate financial statements to be drawn up for the first time pursuant to IFRS. The amendment also has an effect on the area of application of IAS 27, "Consolidated and Separate Financial Statements under IFRS", as the retrospective application defined by this standard in respect of cost of acquisition is no longer necessary. These changes do not have any impact on the Phoenix Group as an entity which has applied IFRS over many years.

Up until now, IAS 27 (new version), "Consolidated and Separate Financial Statements under IFRS", required that the cost of purchasing an investment must be reduced by any dividend distributed after the date of acquisition from revenue reserves set up prior to the date of purchase. Upon an amendment passed in May 2008 in accordance with the revised version of IFRS 1, "First-Time Adoption of International Financial Reporting Standards", no differentiation is to be made in respect of this issue – dividend is to be recorded through profit and loss with immediate effect. Another amendment to IAS 27 was made in respect of IFRS 3, "Business Combinations". To what extent the revised versions of IAS 27 and IFRS 3 affect the net assets, financial position, and result of operations and the consolidated cash flow will be ascertained after a detailed examination has been carried out. The amendments to IAS 27 in conjunction with IFRS 1 have no impact on the Phoenix Group as an entity which has applied IFRS for many years.

IFRS 3 (new version), "Business Combinations", which was published in January 2008 by the IASB, constitutes a new, extensive version of IFRS 3 whose most important amendment provides for changes in the accounting treatment of minority interest. With immediate effect, minority interest can be capitalised, optionally, including attributable goodwill or, as before, at the fair value of the attributable identifiable net assets. The book value of minority interest may also be negative in future, as the regulation requiring the assigning of losses which exceed the book value of minority interest to majority shareholders has been changed. Moreover, the "economic entity approach" is mandatory for accounting for transactions with minority interest. These standards also give rise to amendments to IAS 27, "Consolidated and Separate Financial Statements under IFRS". The Phoenix Group is currently investigating the time when amendments to IFRS 3 and IAS 27 are to be applied and what effects this may have on the presentation of net assets, financial position and results of operation or the cash flows.

IFRS 5 (new version), "Non-current Assets Held for Sale and Discontinued Operations", stipulates that if a subsidiary is held for sale, all assets and liabilities are to be classified as held for the sale under IFRS 5, even if, after the sale, the company retains a share in the subsidiary without controlling influence. The requisite classifications in the event of parts of associated companies being sold are to be applied prospectively as from the financial year 2010, if necessary.

The application of IAS 28 (new version), "Accounting for Investment in Associates" is mandatory as from 1 January 2009. Accordingly, in the case of an associated company which is recognised pursuant to IAS 39 at fair value owing to the exemption permitted by standards under IAS 28, only the standard set out under IAS 28 is applied. This standard prescribes that the type and the scope of significant restrictions on the ability of the associated company of transferring funds in the form of payments or redemptions of loans to the accounting company are to be disclosed. A participation in an associated company is to be viewed as a single asset for the purpose of establishing the need for impairment. Impairment may therefore not be distributed across goodwill implicitly inherent in the recognition of participating interest. The same applies to any reversals. Reversals are therefore recognised as an overall increase in the share held in an associated company. The Phoenix Group will be implementing the amendment in the financial year 2009; no effects from the adjustment are anticipated.

IAS 36 (new version), "Impairment of Assets" serves to clarify that, in the case of estimating "fair value less costs to sell" while applying discounted cash flows, the same information is to be given as if the "value in use" had been applied to the estimate of discounted cash flows. The Phoenix Group will disclose this information in the Notes as from 1 January 2009, if applicable and necessary.

IAS 38 (new version), "Intangible Assets", was amended in the financial year 2008 to the extent that prepayments can only be recognised if they are associated with the right to acquire future services and deliveries. Based on the recent clarifying definition of prepayment, costs incurred by advertising and promotional measures are only to be recorded as expenses when the company has either the goods at its disposal or has taken receipt of the services. Advertising and promotional measures explicitly include mail-order catalogues in future. Moreover, the issue of allowing depreciation and amortisation methods which depend on the progress of performance in future if this serves to reflect the actual development of use more accurately has been clarified. This is also applicable even if it results in a lower accumulated write-down amount than under the linear method.

IAS 19 (new version), "Employee Benefits", resolves a number of details. Among other things, the definition of "past-service costs" on curtailments of payments in relation to entitlements already earned ("negative past-service costs") was broadened. At the same time, curtailments relating to future defined benefits resulting from plan amendments have been deleted from the definition. Plan amendments that reduce existing benefits in relation to future entitlements are to be recognized as plan curtailments. Furthermore, the amendment clarifies that expenses incurred by plan administration and which have already been taken account of in the assumptions used for valuing defined benefit obligations will no longer fall under the definition of "gains from plan assets". In addition, the definition of "fall due" and other benefits "due long term" to employees was revised in order to emphasise the date on which the obligation is settled. The last relevant amendment is the deletion of the reference to the recording of contingent liabilities for the purpose of harmonising with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Under IAS 37, contingent liabilities may not be capitalised. The Phoenix Group will implement these amendments at the start of the financial year 2009.

IAS 39 (new version), "Financial Instruments: Recognition and Measurement", has been the subject of another amendment. The modification clarifies that changes in the circumstances of financial group derivatives, in particular derivatives designated as hedging instruments after their initial recognition or the classification of which is reversed, do not constitute a reclassification. For this reason, a financial derivative can be reclassified after its initial recognition into the category of financial instruments to be valued at fair value through profit and loss. In addition, debt instruments are revalued at the end of recognition as fair value hedges and, instead of the effective interest rate originally applied, the adjusted effective interest rate is to be used in future. Moreover, a reference to a "segment" within the meaning of IAS 14 was replaced by a reference to "segment level" from IFRS 8. This is to enable the new segment terminology of IFRS 8 to be used in future as a basis for the requirement under IAS 39 for determining whether a financial instrument fulfils the criteria for classification as a hedging instrument.

IAS 1 (new version), "Presentation of Financial Statements", substantiates the opinion of the IASB that assets and liabilities which are classified pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" as held for trading cannot automatically be deemed current balance sheet items.

IFRS 8 provides particularly 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; in addition, they are available for separate 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 annual periods on or after 1 January 2009. The Phoenix Group plans to apply this standard as from 1 January 2009. This will incur changes and supplementations to segment reporting. It is likely that segment reporting will be extended to include the segment "investors" which is currently comprised under the Power Plants segment. Other consequences are not reliably discernible from today's standpoint as the effects of the organisational restructuring measures implemented are currently not foreseeable.

IFRIC 16, “Hedges of a Net Investment in a Foreign Operation”, determines that only the differences between functional currencies may be hedged. The hedging of a net investment is, however, not limited to the difference between the functional currency of a foreign operation and that of the parent entity. It can relate more to divergences between the functional currency of the interposed parent entity and of the foreign operation. The hedging relationship may comprise the whole net assets of the foreign operation or parts thereof. The hedging instrument can be held by any group company to the exception of the hedged foreign operation. A non-derivative financial instrument of an individual foreign operation can be used to hedge the risks of a net investment in another foreign operation. The Phoenix Group intends to apply the interpretation as from 1 January 2009; it assumes, however, that there will be no effect on the net assets, financial position and the results of operation as a hedge strategy is currently not implemented.

e) Interpretations which are not mandatorily applicable nor of relevance for the Group
The following interpretations had been published by the IFRIC by the reporting date, with mandatory application for the annual periods starting on 1 January 2009 at the earliest or thereafter. These interpretations affect content which was of no relevance for the Phoenix Group on the reporting date.

IAS 16 (new version), “Property, Plant and Equipment”, requires that property held for rental purposes and which, upon expiry of the rental period, is sold as part of the customary course of business, is reposted to inventory upon termination of the rental relationship and held until sale. Proceeds from the sale are to be subsequently disclosed under revenues. IAS 7, ”Statement of Cash Flows”, was extended to include the regulation that payments for the manufacturing or acquisition of such assets are to be classified as cash flow from operating activities. Payments received from rental income and the subsequent sale of assets are also to be disclosed as cash flow from operating activities. Moreover, the term “net selling price” was replaced by “fair value less costs to sell” in order to accord with IFRS 5, “Non-current Assets Held for Sale and Discontinued Operations”, and IAS 36 “Impairment of Assets”. These adjustments have no impact on the presentation of the Group as no entity within the Group operates lease and sale models.

IAS 20 (new version), “Accounting for Government Grants and Disclosure of Government Assistance“, determines that government loans on which the interest rate is not in line or below the market are not exempted from the regulation requiring measurement at fair value. Accordingly, the interest rate advantage accruing from non- or low-interest government loans must also be quantified. The standard has thus been harmonised with IAS 39. The difference between the amount disbursed and the discounted amount is to be treated as a government grant. The new accounting rule does not have an impact on the presentation of the Group as the Phoenix Group does not receive government subsidies.

IAS 27 (new version), "Consolidated and Separate Financial Statements", stipulates that when a parent company capitalises a subsidiary in its separate financial statements pursuant to IAS 39 at fair value, this accounting method must be retained if the subsidiary is subsequently classified as held for sale. This rule has no impact on the presentation of the Group as the participating interests in the respective separate financial statements were recognised at the cost of acquisition.

IFRIC 13 "Customer Loyalty Programmes" is applicable as from 1 January 2008 and 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 the customers redeem the points. IFRIC 13 has no significance for the Phoenix Group as there are no such premium systems for customers.

(3) CHANGES IN ACCOUNTING PRINCIPLES AND VALUATION METHODS

As against the financial statements as at 31 December 2007, there have been the following significant changes to the accounting, valuation and consolidation methods:

CAPITALIZATION OF TRANSACTIONS WITH MINORITY INTEREST

In accounting for transactions with minority interests, such as with the purchase of shares in Renewable Energies Development 2002 (RED 2002) S.r.l. (now renamed as Phoenix Solar S.r.l.) and of Phoenix Solar S.L., the economic entity approach was applied as an alternative to the accounting variation under IFRS 3 (new version 2004). Consequently, an amount, which exceeded the proportionate net capital to be acquired, was not qualified as an additional purchase price component but as a shareholder transaction. This different assessment of the separate parts of the transaction resulted in a – to date – divergent disclosure of the purchase price premium in that, instead of forming / raising goodwill, a reduction in reserves was capitalised. This approach accords with the future recognition under IFRS 3 and reflects the economic content of the respective transaction.

VALUATION OF GUARANTEE RESERVES

In the financial year the company used experience gathered from the deployment in construction work of sector-specific materials, outsourced and in-house products and services as an opportunity of recalculating reserves for guarantees relating to assembly work of the Power Plants segment and the Components & Systems segment on the basis of empirical values and estimates. Instead of the formerly applied expectation model and taking account of a revenues-related multiple for power plant construction, a reduced multiple is used in conjunction with an updated estimate of the course of guarantees. In addition, module-specific guarantee risks based on empirical values which reflect the probable course of guarantees at the current point in time are used for the Components & Systems segment. The lowering of the revenue-related multiple applied to the existing portfolio of non-current guarantee reserves resulted in the release of kEUR 229 in the financial year.

(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 23 April 2009. Approval will be given by the Board of Directors.

(6) PRINCIPLES OF CONSOLIDATION

GROUP OF CONSOLIDATED COMPANIES

All subsidiaries were included in the consolidated financial statements of Phoenix Solar AG in accordance with the principles of IAS 27. In comparison with 31 December 2007, the group of consolidated companies of the Phoenix Group has been extended to include four more companies (2007: one company).

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

Company	Consolidation type	Share in capital
Phoenix Solar Energy Investments AG, Sulzemoos	Full consolidation	100 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos	Full consolidation	100 %
Phoenix Solar E.P.E., Athens	Full consolidation	100 %
Phoenix Solar S.L., Madrid	Full consolidation	100 %
Phoenix Solar Pte. Ltd., Singapore	Full consolidation	75 %
Renewable Energies Development 2002 (RED 2002) S.r.l., Rome (now called Phoenix Solar S.r.l.)	Full consolidation	100 %
Phoenix Solar Pty Ltd, Adelaide	Full consolidation	100 %
TPC Photoenergy srl, Eppan an der Weinstraße	Full consolidation	100 %
Scarlatti Srl., Eppan an der Weinstraße	Full consolidation	55.556 %

Phönix SonnenFonds Verwaltungs GmbH was renamed as Phoenix Solar Fonds Verwaltung GmbH in August 2008.

Renewable Energies Development 2002 S.r.l., formerly included in the group of consolidated companies as an associated company using the at-equity method, has been fully consolidated since 1 January 2008.

Phoenix Solar E.P.E., with its principal place of business in Athens, was founded in June 2008. The subsidiary will supplement the sales activities already up and running in the power plant business in Greece by adding the Components & Systems segment. The start-up costs came to around kEUR 6.

Phoenix Solar AG founded a wholly owned subsidiary in Australia on 1 July 2008. Phoenix Solar Pty Ltd, with its principal place of business in Adelaide, will serve the whole Australian continent. The task of the new company is to replicate and build up the business model of the parent company with its Power Plants and Components & Systems segments. The start-up costs amounted to the necessary minimum capital of AUD 2; incidental costs were borne by the company itself.

The remaining five percent of the shares in Phoenix Solar S.L., Madrid, were taken over from minority shareholders on 27 August 2008. The cost of purchasing the minority interest came to kEUR 160.

As, at the time of the purchase of the minority interest, both Renewable Energies Development 2002 S.r.l., Rome, and Phoenix Solar S.L., Madrid, already belonged to the group of consolidated companies, offsetting without effect on income was carried out to take account of any difference between the purchase price of the minority interest and the amount of the minority interest recognised in the balance sheet.

The following company is included as an associated company in the group of consolidated companies at equity:

Company	Consolidation type	Share in capital
Phönix SonnenFonds GmbH & Co. KG B1, Sulzemoos	At equity	31.2 %

For reasons of materiality, a limited partnership which is wholly owned by Phoenix Solar Energy Investments AG 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 Phoenix Solar Fonds Verwaltung GmbH (without capital participation) is a general partner are not consolidated, as the general partner does not exercise a controlling influence on the respective 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 31/12/2008 (2007) (HGB)	Total liabilities 31/12/2008 (2007) (HGB)	Income 2008 (2007) (HGB)	Result for the period 2008 (2007) (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 Phoenix Solar Fonds Verwaltung GmbH is general partner

in k€	Total assets 31/12/2008 (HGB)	Total liabilities 31/12/2008 (HGB)	Income 2008 (HGB)	Result for the period 2008 (HGB)
Phönix SonnenFonds GmbH & Co. KG A1/2 West	459	158	93	36
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	490	400	92	30
Phönix SonnenFonds GmbH & Co. KG A3/4 West	462	368	93	36
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	496	413	91	29
Phönix SonnenFonds GmbH & Co. KG A5/6 West	496	262	92	29
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	495	173	90	29

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 application of IAS 32.18b), the capital accounts of the shareholders of the limited partnership companies have been included in the total liabilities. The disclosure selected corresponds in the main to the new requirements of the standards set out under IAS 32 (new version), "Financial Instruments: Disclosure and Presentation", and IAS 1 (new version), "Presentation of Financial Statements", which permits the disclosure of economic capital.

The 50-percent stake held indirectly in SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG via Phoenix Solar Energy Investments AG is not included in the consolidated financial statements as a joint venture or 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 therefore been disclosed under "Other participating interests".

PRINCIPLES OF CONSOLIDATION

Phoenix Solar AG is obliged to draw up consolidated financial statements as at 31 December 2008. All rules and interpretations of IAS and IFRS valid on 31 December 2008 were adhered to in the consolidated financial statements presented in this report.

a) Subsidiaries

Subsidiaries included in the group of consolidated companies are those on 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 write-ups or write-downs on shares in group companies carried out in the financial year are set off in the consolidated financial statements.

The purchase method was applied to acquired companies. The purchase costs of acquiring a company are valued 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 acquisition as incidental purchase costs. For the purposes of initial recognition, purchased and identifiable assets, liabilities and contingent liabilities are recorded at fair value at the time of purchase. If the purchase costs exceed the proportionate, revalued 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, revalued 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 the first-time preparation of consolidated financial statements (1 January 2004), specifically Phoenix Solar Energy Investments AG and Phoenix Solar Fonds Verwaltung GmbH, there were no hidden reserves on the assets side or hidden debt on the liabilities side at the time of purchase. Accordingly, any differences in amount were ascertained on the basis of the book values. Differences on the assets side between the cost of acquisition and pro rata equity of the companies purchased were disclosed as goodwill. There were no differences on the liabilities side.

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

The consolidation of liabilities is carried out pursuant to IAS 27. In this process, the receivables and liabilities of the companies included in the consolidated financial statements are set off against each other.

The consolidation of expenses and income is carried out pursuant to IAS 27 whereby inter-group expenses and income are set off against each other.

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

In consolidation transactions through profit and loss, the income tax-related impacts are taken account of and deferred taxes recognised.

b) First-time consolidated company
Renewable Energies Development 2002 S.r.l., formerly included in the group of consolidated companies as an associated company at equity, has been fully consolidated since 1 January 2008. Phoenix Solar has held 49 percent in RED 2002 and an option to purchase another 26 percent of the shares since January 2006. The exercise conditions were fulfilled for the first time on 1 January 2008. The potential voting rights, held in the portfolio and exercisable, resulted in a capital majority sufficient to exercise control over the financial and business policies of the company. The purchase price allocation as per 1 January 2008 has been carried out temporarily. In part by exercising its option, Phoenix Solar AG took over the remaining 51 percent on 28 July 2008, thereby raising its stake to 100 percent of the shares in the company.

The final purchase price allocation is scheduled for completion by the end of the relevant year corridor. The total transaction costs of purchasing the minority interest of 51 percent came to kEUR 1,059.

At the current point in time, the purchase price allocation has not been completed so that the effects of the first-time consolidation on the net assets, financial position and results of operation can only be presented approximately; the figures set out below were incorporated into the Group's financial statements at the time of the first-time consolidation:

in k€	Fair value	Book value
Intangible assets	1	1
Property, plant and equipment	13	13
Other financial assets	6	3
Inventories	159	159
Trade receivables	859	859
Income tax claims	3	3
Other non-financial assets	5	5
Cash funds	3	3
Deferred tax liabilities	– 1	0
Current financial liabilities	– 33	– 33
Trade payables	– 48	– 48
Other non-financial liabilities	– 333	– 333
Actual tax liabilities	– 43	– 43
Net assets	591	589
– Minority interest	– 302	
= Net assets acquired	289	
Consolidation transition		
At-equity approach 1 January 2008	524	
Net assets acquired	289	
Goodwill	**235**	

Contingent liabilities were not identified on the date of the first-time consolidation; subsequent recognition was not discernible on the reporting date. For this reason, management assumes that there will be no material changes in the proportionate values recognized to date.

The preliminary calculation of goodwill reflects, on the one hand, gaining appropriate access to the Italian photovoltaics market and, on the other, realising synergies between the local sales network and the supply chain of the parent company.

The subsidiary Phoenix Solar Energy Investments AG, Sulzemoos, has two project companies, partly with participating minority interest, namely TPC Photoenergy srl (100 percent) and Scarlatti Srl. (55.56 percent), both headquartered in Eppan an der Weinstraße, Italy. The acquisition costs came to kEUR 10 and kEUR 6 respectively.

c) Associated companies
Associated companies are participating interests on which the Group can exert a considerable interest without, however, having control. There is customarily the 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 initial recognition of an associated company is carried out at cost of acquisition. If the purchase costs exceed the proportionate equity capital in the at-equity holding at the time of acquisition, goodwill is recognised accordingly and, if necessary, reduced by impairment losses and disclosed separately in subsequent periods. 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 acquisition and unsecured receivables in relation to the associated company, no further impairment is recorded unless additional obligations of the associated company are assumed.

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 transition was made from annual financial statements under German commercial law to IFRS. Differences in recognition and measurement as well as IAS 32.18b) were taken account of in the auxiliary calculation.

The result from the at-equity valuation attributable to the Phoenix Group under IFRS came to kEUR 20 (2007: kEUR 23) and is disclosed in the consolidated income statement under the “Result from associated companies” item. The holding in the associated company is shown separately in the consolidated balance sheet under “Investments in associated companies”. The book value of the investment stood at kEUR 436 as per 31 December 2008 (2007: kEUR 405).

To achieve a more transparent presentation, items have been combined in the consolidated balance sheet as well as in the consolidated income statement and disclosed separately and explained in the Notes to the Consolidated Financial Statements in accordance with the principle of materiality.

B. ACCOUNTING POLICIES AND VALUATION METHODS

(1) RECOGNITION OF PROFIT AND CONSTRUCTION CONTRACTS

REVENUE RECOGNITION

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. Delivery and acceptance is deemed as carried out when, in accordance with the contractual agreements, the risks associated with the ownership have passed to the buyer or consumer and compensation has been fixed contractually and the performance of the receivable is likely.

Service revenues are realised when the service is rendered. The degree to which services are rendered is ascertained in accordance with the percentage-of-completion method provided that the result can be reliably assessed. If the result of a service cannot be reliably ascertained, recognition is made in the amount of expenses incurred which can be recovered ("cost reimbursement approach"). If a loss is expected, it is disclosed.

Sales revenues are disclosed after deduction of returns, rebates and discounts and after elimination of intra-group transactions and correspond to the fair value of payments received or receivables recorded, i.e. anticipated payments capitalised.

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, receivables from long-term construction contracts are customer orders placed and not fully completed. Under IAS 11, construction orders are to be valued according to the percentage-of-completion method under certain circumstances. Accordingly, contract revenue is recognised as profit in the income statement in the period as and when work is completed. Revenue from fixed-price contracts is thus recognised as profit in accordance with the stage of completion. 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 discernable 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 percentage-of-completion (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 their cost of purchase pursuant to IAS 38 and are written down on a scheduled straight-line basis over their expected useful life. As regards the trademark rights comprised under this position, there was no indication of possible impairment.

Intangible assets created in house are only 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 production 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 assets 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 provided 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 / WRITE-DOWNS 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 (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 amount 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 leasing and have terms of between 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 acquisition plus incidental purchase costs.

INVENTORIES

Upon initial recognition, inventories are capitalised at their cost of purchase / cost of production pursuant to IAS 2, plus incidental purchase costs and minus reductions in the purchase price; the cost of production comprises all directly allocable costs.

The costs of purchasing 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 / production.

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 on the performance date. 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. Management determines the categorisation of original financial instruments upon their initial recognition. 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 of acquisition. 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 their carrying amounts which generally correspond 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 of these instruments are forward exchange transactions, forex 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 must be 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; in as much, however, that it is not possible to ascertain a market price and there are thus 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 forex 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 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 other “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.

In the case of receivables with a high probability of default, provisions for losses on individual accounts are formed and included under the net book value disclosed. 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. They 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.

SUBSCRIBED CAPITAL AND CAPITAL RESERVES

Capital instruments without ancillary conditions are always disclosed as equity.

Costs incurred in connection with the issuing of equity instruments are deducted from equity, taking account of the income-tax related advantage ("net of tax").

SHARE-BASED PAYMENT

Accounting for share-based payments is carried out pursuant to IFRS 2, i.e. standards governing share-based payments are always measured 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 the determinant of fair value on the one hand and, on the other hand, the 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 (40).

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 experience from the past.

Other provisions were formed for all identifiable risks and uncertain obligations in the amount of their probable occurrence based on the best possible estimate. Non-current provisions are discounted at a market-oriented rate. Compound interest amounts and interest rate effects are disclosed under the financial result.

A reimbursement associated with a provision is capitalised as a separate asset provided a high degree of certainty that it will be received. Disclosing a balance under provisions is not permitted. Under certain circumstances, prepayments made on the reporting date are shown separately from the provisions.

Absolute obligations which result from the decommissioning of property, plant and equipment are carried as liabilities in the discounted amount to be paid in the period when they arise provided that a reliable estimate is possible. At the same time, the book values of the respective property, plant and equipment are raised by the same amount. In subsequent periods, the capitalised costs of decommissioning are written down over the probable remaining life of the respective asset, while compound interest accrues annually on the reserves.

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, a potential obligation, 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 assets items”.

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

Actual tax assets 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 on 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;
- in the case of temporary differences between recognition of the holding for tax purposes and the corresponding proportionate IFRS equity and the shareholder refrains from his option of reducing this difference e.g. through dividend distribution.

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 is 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 subsidiaries Phoenix Solar Pte. Ltd. and Phoenix Solar Pty Ltd are converted in accordance with the concept of functional currency. The functional currency of these companies is USD and AUD so that, for the purpose of inclusion in the consolidated financial statements, translation into euros is carried out. The translation of the balance sheet items is 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 "Difference from currency translation" and disclosed separately.

Exchange rates applied to the consolidated financial statements:

Currency pair	Reporting date rate 2008	Average rate 2008	Reporting date rate 2007	Average rate 2007
USD / EUR	1.3917	1.4726	1.4721	1.3874
AUD / EUR	2.0274	1.8401	–	–
JPY / EUR	126.14	152.45	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 their distribution among business segments and regions are shown in the segment report in these Notes (see Note (34)).

On the reporting date, revenues comprise revenues of long-term construction contracts (pursuant to IAS 11) for which invoicing has not been completed of kEUR 5,438 (2007: kEUR 67,180).

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

Revenues in k€	2008	2007
Components & Systems	214,622	129,264
Power Plants	187,808	130,715
Other	64	139
Total	**402,494**	**260,118**

(2) INCREASE OR DECREASE IN THE LEVEL OF CONTRACTS IN PROCESS

This item shows the increase or decrease in the level of contracts in process under Inventories. In the financial year 2008, the level rose by kEUR 16,872 in line with construction progress of a project which cannot be deemed a customer-specific contract production under IAS 11.

(3) OTHER OPERATING INCOME

Other operating income in k€	2008	2007
Proceeds from damage compensation	78	30
Non-monetary compensation	144	88
Income from the release of provisions and liabilities	754	431
Income from subsidy payments for projects	41	0
Electricity income	0	3
Income from the disposal of property, plant and equipment	11	0
Income from the release of provisions	6	3
Income from price gains	1,741	347
License income	706	2
Other	217	240
Total	**3,699**	**1,144**

The income from price gains relates to income from the translation of transactions concluded in a foreign currency and the realisation of the forex forwards, swap and option transactions underlying these transactions.

License income is compensation for the use of a joint technical development for frames between the Phoenix Group and a supplier in the year 2007. The agreement stipulates that, in the event of the use or the sale of this development in projects in which the Phoenix Group is not involved, Phoenix will receive a fixed portion of revenues.

(4) 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€	2008	2007
Expenses for goods purchased	304,061	182,663
Expenses for services purchased	52,431	38,218
Total	**356,492**	**220,881**

(5) PERSONNEL EXPENSES

Personnel expenses break down as follows:

Personnel expenses in k€	2008	2007
Wages and salaries	10,413	6,793
Expenses incurred by stock option plans	372	54
Social security contributions and expenses for old age provisioning and for support	1,693	1,109
Total	**12,478**	**7,956**

As from 1 July 2008, the company offers all employees a company pension through defined contributions from deferred compensation. The company will make additional payments on the contributions of participating employees within the framework of provisions under German tax and social security law. In the financial year ended, employer contribution, which came to kEUR 18 was recorded through profit and lost. There are no defined pension benefits within the Group.

Expenses for old-age provisions came to kEUR 2 (2007: kEUR 3) and result exclusively from insurances arranged directly with insurance companies for employees and contributions under German capital formation law. Share options were issued in the reporting year (see Note (40)).

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

Employees	2008	2007
The Board of Directors (parent company)	4	4
Salaried employees (full and part time)	168	96
Temporary staff	18	25
Total	**190**	**125**

(6) DEPRECIATION AND AMORTISATION

Depreciation and amortisation on intangible assets and property, plant and equipment came to kEUR 425 in the year under review (2007: kEUR 313). A detailed overview has been included in the Analysis of fixed assets in Note (15).

(7) OTHER OPERATING EXPENSES

Other operating expenses in k€	2008	2007
Administration costs	7,572	4,118
Selling costs	4,896	2,881
Operating costs	4,360	2,643
Other costs	3,039	266
Total	**19,867**	**9,908**

Expenses from operate leasing came to kEUR 538 in the financial year 2008 (2007: kEUR 348).

The administrative costs of the financial year comprise losses of kEUR 420 (2007: kEUR 459) from the translation of transactions concluded in a foreign currency into the reporting currency.

In the financial year 2008, research and development costs of kEUR 76 (2007: kEUR 131) were booked as expenses.

(8) RESULT FROM ASSOCIATED COMPANIES

The result from associated companies accounted for kEUR 20 in the financial year (2007: kEUR 55).

(9) FINANCIAL RESULT

The financial result rose by kEUR 310. Interest expenses of kEUR 1,088 (2007: kEUR 1,101), mainly for short-term borrowing, were offset by interest income of kEUR 711 (2007: kEUR 414), mainly from call money accounts.

(10) INCOME TAX

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

Income tax in k€	2008	2007
Actual tax	12,756	3,832
Deferred taxes	– 2,989	3,269
Total	**9,767**	**7,101**

The income tax expenses of kEUR 9.767 in the financial year 2008 (2007: kEUR 7,101) are kEUR 837 higher than the expected income tax expenses of kEUR 8,930 which would have theoretically resulted from the application of the domestic tax rate of 26.7 percent (2007: 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€	2008	2007
Profit before income tax at a computed tax rate of 26.7 % (2007: 35.98 %)	33,446	21,572
Calculated income tax	8,930	7,762
Changes in calculated compared with actual tax expenses owing to:		
Income tax not related to the accounting period	– 175	– 71
Tax effect from non-deductible expenses for share options	99	20
Tax effect from other non-deductible expenses	53	29
Release of actual tax liabilities	0	– 10
Tax effect owing to divergent tax rates	968	– 780
Tax effect from deductible expenses from the capital increase	– 157	0
Effect from changes in the tax rate	0	– 4
Tax effect from the non-recognition of losses	46	105
Tax expenses owing to divergent tax assessment bases	20	27
Other divergences / consolidation	– 17	23
Total	**9,767**	**7,101**
Effective tax rate	**29.2 %**	**32.9 %**

Computed income tax rate is made up of business tax (10.92 percent), the application of the corporate tax rate (15 percent) and the solidarity surcharge (5.5 percent of the corporate tax). Business tax is no longer deductible since 2008.

The “Tax effect owing to divergent tax rates” item is mainly the result of the application of the higher Spanish tax rate of 30 percent (2007: 32.5 percent).

Deferred taxes are allocated to the following balance sheet items:

Deferred taxes by item in k€	2008	2007
Deferred tax assets		
Derivatives valuation	23	0
Capitalised loss carryforwards	76	0
Total	**99**	**0**
of which short term	23	0
of which long term	76	0

in k€	2008	2007
Deferred tax liabilities		
Self-created intangible assets	2	6
Property, plant and equipment	10	0
PoC valuation of construction contracts	98	3,284
Derivatives valuation	0	45
Inventories valuation	242	89
Financing costs deferrals	157	0
Other / consolidation	25	0
Total	**534**	**3,424**
of which short term	417	3,373
of which long term	117	51

In connection with the capital increase executed in April 2008, the resulting expenses (kEUR 605) minus the fictitious tax-related effect of kEUR 157 were set off directly against equity.

Phoenix Solar Pte. Ltd., Singapore, acquired in 2007, sustained tax losses of kUSD 352, the equivalent of kEUR 253 in the financial year ended, for which no deferred tax on the asset side was recognised, as taxation of positive results and relief through netting of losses are not permitted in the three-year start-up period of companies (so-called tax holidays). The total amount of losses not recognised comes to kEUR 563 (2007: kEUR 310). All capitalised loss carryforwards are unrestrictedly eligible for carrying forward.

No deferred taxes were formed for temporary outside-basis differences of kEUR 314 (2007: kEUR 134) as no dividend payouts by the subsidiaries to the parent company are planned in the near future.

(11) 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)	2008	2007
Consolidated net income for the period (in k€)	23,699	14,481
Average number of shares outstanding (in units)	6,535,115	6,077,000
Basic earnings per share (EPS)	**3.63**	**2.38**

In the calculation of diluted earnings per share, 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 Solar 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 (EPS)	2008	2007
Consolidated net income for the period (in k€)	23,699	14,481
Average number of shares outstanding (in units)	6,535,115	6,077,000
Adjustment for potentially diluting shares (in units)	12,890	1,639
Average number of shares outstanding (including potentially diluting shares) (in units)	6,548,005	6,078,639
Diluted earnings per share (in €)	**3.62**	**2.38**

As per 31 December 2008, there was approved capital of kEUR 1,603 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.

Consolidated net income generated in 2008 has raised unappropriated retained earnings as per 31 December 2008. The Board of Directors of Phoenix Solar AG proposes that a dividend of EUR 0.30 per share (2007: EUR 0.20) on 6,684,500 shares be distributed.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(12) INTANGIBLE ASSETS

For the development of book values, reference is made to the Analysis of fixed assets (see Note (15)).

Intangible assets have a useful life of between three and 15 years. They are written down on a straight-line basis over their useful lives.

In the financial year 2007, Phoenix Solar AG began to develop a new system on which photovoltaic modules can be mounted. This is a legal protection of registerd designs. 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 2008 nor in the previous year.

Material intangible assets in k€	Book value as per 31/12/2008	Remaining useful life
"Phoenix" trademark right	253	8 years
Software licenses	164	3 years
Development costs	12	3 years

(13) GOODWILL

The goodwill of Phoenix Solar Energy Investments AG (kEUR 272), the purchase of which took place on 15 March 2002, resulted from first-time consolidation.

The first-time consolidation of Rome-based Renewable Energies Development 2002 (RED 2002) S.r.l., a company formerly recognised at equity, took place on 1 January 2008, with a resulting goodwill of kEUR 235. Moreover, goodwill arose in the context of the founding of the Greek subsidiary as the parent company assumed the start-up costs of kEUR 5.

Goodwill in k€	2008	2007
Phoenix Solar Energy Investments AG	272	272
Renewable Energies Development 2002 (RED 2002) S.r.l.	235	0
Other	26	20
Total	**533**	**292**

In application of IFRS 3 in conjunction with IAS 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 CGU is compared with its capitalized earnings value. The capitalized earnings 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 8.76 percent (2007: 10.61 percent). For the purpose of calculating perpetuity, a growth factor of one percent was applied. There is an impairment if the capitalised value is lower than the book value.

In the financial year 2008, no unscheduled amortisation was carried out. Even assuming that the revenues of a CGU were five percent lower or the interest rate level ten percent higher, there would be no necessity for impairment.

(14) PROPERTY, PLANT AND EQUIPMENT

For the development of book values, reference is made to the Analysis of fixed assets (see Note (15)).

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

Depreciation is carried out on a straight-line basis pro rata temporis over the period of the customary useful life. The useful life is between three and 14 years.

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

(15) ANALYSIS OF FIXED ASSETS

DEVELOPMENT OF FIXED ASSETS IN THE PHOENIX GROUP

	Cost of acquisition and production				
2008 in k€	As per 01/01/	Addition financial year	Disposal financial year	Currency translation	As per 31/12/
Self-created intangible assets	29	0	0	0	29
Intangible assets	1,324	270	433	0	1,161
Goodwill	292	241	0	0	533
Property, plant and equipment	1,955	775	90	2	2,642
Total fixed assets	**3,600**	**1,286**	**523**	**2**	**4,365**
2007	01/01/				31/12/
Self-created intangible assets	29	0	0	0	29
Intangible assets	851	473	0	0	1,324
Goodwill	278	14	0	0	292
Property, plant and equipment	1,337	662	44	0	1,955
Total fixed assets	**2,495**	**1,149**	**44**	**0**	**3,600**

Accumulated depreciation and amortisation						
As per 01/01/	Addition financial year	Disposal financial year	Currency translation	As per 31/12/	Book values 31/12/2008	Book values 31/12/2007
7	10	0	0	17	12	22
537	89	0	0	626	535	787
0	0	0	0	0	533	292
737	326	74	2	991	1,651	1,218
1,281	**425**	**74**	**2**	**1,634**	**2,731**	**2,319**
01/01/				31/12/	31/12/2007	31/12/2006
0	7	0	0	7	22	29
484	53	0	0	537	787	367
0	0	0	0	0	292	278
527	253	43	0	737	1,218	811
1,011	**313**	**43**	0	**1,281**	**2,319**	**1,485**

(16) INVESTMENTS IN ASSOCIATED COMPANIES

Phönix SonnenFonds GmbH & Co. KG B1 (KG B1) was valued using the at-equity method.

The book values developed as follows in the financial year:

in k€	2008	2007
Recognition as per 31 January	991	983
+ Addition	0	0
– Disposal	– 524	0
– Dividend distribution	– 50	47
+ Share in profits	19	55
Recognition as per 31 December	**436**	**991**

The disposal comprises the book value of the shares in RED 2002 which has been fully consolidated since 1 January 2008.

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€	2008	2007
Assets	1,058	1,674
Liabilities	8	191
Revenues	182	188
Equity*	1,050	1,483
Total assets	1,058	1,674
Net income	63	104

* 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 (28)), the shares in Phönix SonnenFonds GmbH & Co. KG B1 were pledged as security to the lending bank in the amount of kEUR 405.

(17) 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 Beteiligungs GmbH & Co. KG, a company founded in 2007. In 2008, the company had assets of kEUR 1,153 (2007: kEUR 744), liabilities of kEUR 871 (2007: kEUR 472), revenues of kEUR 0 (2007: kEUR 0) and earnings before tax of kEUR 10 (2007: kEUR – 20). SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG, in turn, holds all the shares in KALENTA Solar M.E.P.E., Greece.

(18) NON-CURRENT RECEIVABLES

This position comprises a purchase-money claim of kEUR 450 which is deferred until 31 December 2023. Interest is charged at 5.5 percent p.a. until 31 December 2015, and then at six percent p.a. as from 1 January 2016 until full payment.

This item also includes a loan of kEUR 40 with a term until 30 June 2012, on which interest of 6.5 percent p.a. is charged.

(19) INVENTORIES

The table below is a breakdown of inventories:

Inventories in k€	31/12/2008	31/12/2007
Merchandise	60,348	25,677
Depreciation	– 1,245	– 235
Net merchandise value	59,103	25,442
Contracts in process	17,101	0
Depreciation	– 229	0
Net book value	16,872	0
Recognition in the balance sheet	**75,975**	**25,442**

Inventories are mainly made up of photovoltaic modules, inverters and transformers.

In line with the estimate of the Board of Directors pertaining to the anticipated proceeds from the sale being below the purchase prices, inventories were written down to the lower net selling value less costs to sell.

The book value of the inventories recognised as per 31 December 2008 at the net selling price less costs to sell stood at kEUR 19,121 (2007: kEUR 742). Depreciation expenses came to kEUR 1,474 (2007: kEUR 235).

The Contracts in process item comprises building on land and property owned by third parties which do not qualify for accounting under IAS 11. If, on the reporting date, the net realisable value does not cover the cost of production, a lower value is recognised in the balance sheet by way of a measurement at the lower of cost or net realisable value.

Depreciation expenses of goods are shown in the income statement under the Cost of materials item. The impairment of contracts in process is recorded directly under the Increase / decrease in inventories item.

The book value of inventories recognised in the period as expenses posted kEUR 304,061 (2007: kEUR 182,663).

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

(20) PREPAYMENTS

The Prepayments item comprises unsecured payments to sub-contractors and suppliers.

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

As per the reporting date, there were receivables relating to long-term construction contracts of kEUR 735 (2007: kEUR 9,298) and no liabilities (2007: kEUR 427). Receivables pertain mainly to a project in Germany. Contract revenues of kEUR 5,359 (2007: kEUR 67,180), contract costs of kEUR 4,981 (2007: kEUR 52,616) and profit of kEUR 378 (2007: kEUR 14,564) were recorded. None of the contracts are likely to result in a loss.

Prepayments of kEUR 4,715 (2007: kEUR 57,342) 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 3.20 to 4.15 percent (2007: 3.70 to 4.98 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 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 conditions 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 (22)):

As per 31/12/2008 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
Receivables from long-term construction contracts	735	0	0	735	0

As 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
Receivables from long-term construction contracts	9,298	429	6,578	2,181	110

(22) TRADE RECEIVABLES

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

Trade receivables in k€	31/12/2008	31/12/2007
Receivables / Germany	12,735	16,197
Receivables / International	14,755	2,352
Sub-total	27,490	18,549
Minus valuation adjustments	– 2,641	– 234
Recognition in the balance sheet	**24,849**	**18,315**

The fair values of the trade receivables correspond 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; i.e. in contrast to the presentation of receivables from long-term construction contracts (see Note (21)), the time bands represent exceedings of the respective payment dates for the receivables already realised but not adjusted by the reporting date:

As per 31/12/2008 in k€	Book value	Neither impaired nor due	Due and not impaired on the reporting date: Since less than 30 days	Between 31 and 90 days	Between 91 and 360 days	Since more than 360 days
Trade receivables	24,849	9,210	7,991	4,433	3,215	0

As per 31/12/2007 in k€	Book value	Neither impaired nor due	Due and not impaired on the reporting date: 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

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

in k€	2008	2007
Value adjustments as per 1 January	234	234
Price differences	0	0
Utilisation	– 55	– 163
Release	– 6	– 3
Transfer	2,468	166
Value adjustments as per 31 December	**2,641**	**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€	2008	2007
Expenses for the charging off of receivables	3	33
Income from payments received on written-off receivables	0	0

(23) OTHER FINANCIAL ASSETS

a) Other non-current financial assets

Non-current other financial assets, which come to kEUR 878 (2006: kEUR 1,031), are mainly a standing advance to a large supplier. The advance has been secured by a bank guarantee. The remaining amount comprises deposits made.

The subsidiary Phoenix Solar Energy Investments AG acquired a stake in SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG in the financial year 2007. At this time, it granted SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG an interest-bearing loan of kEUR 435 (2007: kEUR 234) with a term until the end of 2012. Phoenix Solar Energy Investments AG received interest income of kEUR 24 in 2008 (2007: kEUR 2) from the market-oriented interest on the loan of 6.5 percent.

b) Other current financial assets

Other current financial assets are as follows:

Other current financial assets in k€	31/12/2008	31/12/2007
Receivables from financial transactions	601	360
Option right	0	160
Supplier credits	983	681
Creditor accounts in overdraft	116	133
Prepayments	460	281
Rental prepayment accruals	218	0
Other	136	413
Total	**2,514**	**1,747**

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

		Payment expected			
As per 31/12/2008 in k€	Book value	In less than 30 days	Between 31 and 90 days	Between 91 and 360 days	In more than 360 days
Financial assets	3,496	622	1,071	832	971
Residual term of up to one year	2,514	622	1,060	832	0
Residual term of more than one year	982	0	0	0	982

		Payment expected			
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
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

(24) 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.

(25) OTHER NON-FINANCIAL ASSETS

Other non-financial assets amounting to kEUR 9,368 (2007: kEUR 549) are mainly foreign VAT claims of kEUR 7,713 (2007: kEUR 531).

(26) CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents in k€	31/12/2008	31/12/2007
Cash in hand	5	116
Deposits at banks	7,530	13,884
Total	**7,535**	**14,000**

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 acquisition 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 0.75 and 3.4 percent (2007: between 1.75 and 3.7 percent).

(27) EQUITY

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

As per 31 December 2008, the share capital came to kEUR 6,684.5 (2007: kEUR 6,077), divided up into 6,684,500 (2007: 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 1,603 (2007: kEUR 2,211) as per the reporting date.

The capital reserve is composed of paid-in surplus in connection with the capital increases and the booking of stock options.

The revenue reserves derive mainly from adjustment bookings in the context of the first-time drawing up of the IFRS consolidated financial statements. In conjunction with the purchase of minority shares in Renewable Energies Development 2002 S.r.l., Rome, and Phoenix Solar S.L., Madrid, the difference between the cost of purchasing the minority shares and the value of the minority shares of kEUR 1,026 (see explanations under Section B) recognised in the balance sheet in revenue reserves was set off without effect on income in application of the Economic Entity Model set out under IFRS 3 (new version) and IAS 27 (new version).

By way of partial utilisation of Approved Capital 2006, Phoenix Solar AG placed 607,500 new no-par bearer shares, to the exclusion of the subscription rights of shareholders, with qualified investors. The share capital rose from EUR 6,077,000 to EUR 6,684,500. The new shares have been admitted ex-prospectus to trading in the regulated market (Prime Standard) of the Frankfurt Stock Exchange and are entitled to a share in profits as from 1 January 2007. Phoenix Solar AG received gross issuing proceeds of EUR 20,806,875 from the capital increase. The funds will be used to finance planned company growth and to further the internationalisation of the Group's business. Proceeds from the issue were burdened by tax-deductible capital increase costs of kEUR 605, less tax-related accruals of kEUR 157.

The Annual General Meeting of 7 July 2006 passed an additional resolution that the share capital of the company be raised conditionally by a maximum of EUR 552,500 through the issuing of up to 552,500 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 2006 Share Option Plan in accordance with authorisation approved 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 and on 10 September 2008 76,500 options were issued, of which 1,250 at year-end 2007 and 9,500 at year-end 2008 expired, so that, as per 31 December 2008, there were 99,000 options.

In accordance with Agenda Item III of the regular Annual General Meeting held on 3 June 2008, a resolution on the appropriation of retained earnings of Phoenix Solar Aktiengesellschaft from the financial year 2007 was passed to pay dividend amounting to EUR 0.20 per share. A total of kEUR 1,337 (2007: kEUR 608) was paid out to the shareholders on the share capital of kEUR 6,684.5 bearing dividend.

The consolidated balance sheet developed as follows in the financial year 2008:

in k€	
As per 1 January 2008 (profit carryforward)	19,316
Dividend distribution	– 1,337
Consolidated net income in 2008	23,699
As per 31 December 2008	**41,678**

The disclosure of the minority holdings in Group equity relates to the holdings Phoenix Solar Pte. Ltd., Singapore, and Scarlatti Srl., Eppan an der Weinstraße, Italy. Due to the development business and the results in Singapore in the years 2007 and 2008, the investment of the minority shareholders was used up with the result that, because there is no obligation to make additional contributions, either contractually defined or under company law, the proportionate loss (kEUR 40) in 2008 was borne in part by the Group.

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 the equity base and
- securing of the company as a going concern.

Derived from these goals, one of the main tasks 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 appropriate equity ratio in the consolidated financial statements were maintained throughout.

The results were as follows:

in k€	31/12/2008	31/12/2007
Equity	89,311	47,326
Total assets	**127,763**	**77,102**
Equity ratio	69.9 %	61.4 %

(28) FINANCIAL LIABILITIES

Financial liabilities are disclosed under the following balance sheet items:

Financial liabilities in k€	31/12/2008	31/12/2007
Non-current financial liabilities (residual term of more than 1 year)	0	50
Current financial liabilities (residual term of up to 1 year)	53	73
Total	**53**	**123**

		As per the reporting date, due in the following time bands			
As per 31/12/2008 in k€	Book value	In less than 30 days	Between 31 and 90 days	Between 91 and 360 days	In more than 360 days
Financial liabilities	**53**	**3**	**10**	**40**	**0**
As per 31/12/2007					
Financial liabilities	123	28	10	35	50

This is primarily 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.

(29) PROVISIONS

The following table shows a breakdown of the provisions:

in k€	As per 01/01/2008*	Utilisation	Release	Compound interest	Transfer	As per 31/12/2008
Non-current provisions						
Warranty provisions	615	0	214	25	1,158	1,584
Decommissioning obligations	50	0	0	3	8	61
Other	99	0	0	6	23	128
Total	**764**	**0**	**214**	**34**	**1,189**	**1,773**

in k€	As per 01/01/2008*	Utilisation	Release	Compound interest	Transfer	As per 31/12/2008
Current provisions						
Warranty provisions	374	359	15	0	213	213
Litigation and arbitration costs	278	0	119	0	810	969
Complaints	15	15	0	0	15	15
Other	6	6	0	0	20	20
Total	**673**	**380**	**134**	**0**	**1,058**	**1,217**

* Reclassifications were carried out as per 1 January 2008 in order to present a detailed schedule of movement of provisions. In this process, existing provisions as per 31 December 2007 of kEUR 149 were reposted from current provisions to non-current provisions.

The warranty provision has been formed for legal and contractual warranty obligations as well as for reason of fair dealing in relation to customers. Almost 100 percent of the long-term guarantee provisions from the project business have terms of up to five years. The maximum observation horizon of the provisions is 20 years.

The provision for litigation and arbitration costs comprise, on the one hand, costs anticipated owing to lawsuits against customers because of unpaid invoices and, on the other, claims asserted by customers on the reporting date which, from the standpoint of the Group, have been partly rejected as unsubstantiated. The items are always evaluated depending on the prospects of an out-of-court settlement. Management assesses a maximum additional expense amount from litigation and arbitration costs at a maximum ten percent.

Provisions for customer complaints are formed for anticipated complaints not yet asserted by customers on the reporting date based on empirical experience.

The other non-current provisions comprise in particular provisions to cover the obligation of archiving business documents. Otherwise, other provisions comprise a number of issues relating to values recognised which are of minor importance in the individual case.

(30) TRADE PAYABLES

Trade payables have been 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.

(31) 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€	31/12/2008	31/12/2007
Personnel-related liabilities	2,071	1,538
Other	2,722	234
Total	**4,793**	**1,772**

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

In addition, financial assets include forex swaps worth kEUR 84 assigned to the "held for trading" category (2007: kEUR 4). The fair value of the forex swaps was calculated by measuring the corresponding amounts denominated in a foreign currency using the forward rate and comparing it with the figure which results from measuring the amounts denominated in a foreign currency with the forward rate which would have been assumed if a counterpart swap transaction with the same maturity data had been concluded on the reporting date. The difference is the fair value amount of the adjustment. Assuming a ten percent change in the currency parity, the book value of forex swaps may fluctuate, until the exercise date, between a figure of kEUR – 315 and kEUR 315.

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

Other non-financial liabilities in k€	31/12/2008	31/12/2007
VAT liabilities	3,669	6,089
Liabilities from wage tax and social security	411	203
Personnel-related liabilities	458	300
Total	**4,538**	**6,592**

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(32) 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. The position was reduced in 2008 by the booking of the purchase of the minority holding in Renewable Energies Development 2002 S.r.l. (now renamed as Phoenix Solar S.r.l.) in an amount of kEUR 932 and Phoenix Solar S.L. in an amount of kEUR 94.

The currency translation difference of kEUR – 30 (2007: kEUR – 28) constitutes the sole part of "comprehensive income" which is to be disclosed separately from the income statement under the new IAS 1 as from 1 January 2009.

(33) 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 exclusively cash-related transactions are calculated using the direct method and disclosed under cash flows from investing and financing activities.

The cash and cash equivalents shown in the cash flow statement comprise all liquid funds, i.e. cash in hand and deposits in banks provided they are available within a period of three months (see Note (26)).

F. OTHER NOTES

(34) 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, sale and construction of photovoltaic plants
- Components & Systems
  Sale and distribution of merchandise

Information on these segments is shown below by segment:

Financial Year 2008

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Income statement					
External revenues	187,809	214,622	63	0	402,494
Revenues between segments	0	0	0	0	0
Revenues by segment	**187,809**	**214,622**	**63**	**0**	**402,494**
Segment result	36,926	25,885	63	0	62,874
Income from associated companies	20	0			20
EBIT				0	33,823
Financial result					– 378
Consolidated net income before tax					33,445
Income tax expenses					9,767
Profit net of minority interests					**23,678**
Profit due to minority interest					23
Consolidated net income for the period					**23,701**
Other information					
Investments	487	798	1		1,286
Scheduled depreciation and amortisation	163	262	0		425
Non-cash expenses	– 3,162	– 3,613	– 1		– 6,776
Non-cash income	528	603	0		1,131

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Balance sheet					
Assets					
Segment assets	58,181	66,983	20		125,184
Investments in associated companies	436				436
Assets not allocated					2,143
Consolidated assets					**127,763**
Liabilities					
Segment liabilities	12,768	14,192	4		26,965
Liabilities not allocated					11,487
Consolidated liabilities					**38,452**

Financial Year 2007

in k€	Power Plants	Components & Systems	Other	Consolidation	Group
Income statement					
External revenues	130,715	129,264	157	– 18	260,118
Revenues between segments	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 interests					**14,471**
Profit due to minority interest					10
Consolidated net income for the period					**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 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**

The segmentation of the operating result is carried out on the basis of the analyses of cost accounting. The revenues of the Power Plants segment pertain solely to project-related payments with the result that, alongside projects already fully invoiced, there are projects which are still in progress on the reporting date, the revenues of which are recognised in the period when they occur according to the percentage-of-completion method defined under IAS 11. As per the reporting date, this amount came to kEUR 5,438 (2007: kEUR 67,180).

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 and income tax assets 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.

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

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

GEOGRAPHICAL SEGMENTS

The operations of the Group are located in Germany, in Europe and in countries outside Europe.

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

Revenues by geographical market in k€	2008	2007
Germany	242,837	189,572
EU excluding Germany	157,548	70,379
Other	2,109	167
Total	**402,494**	**260,118**

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

in k€	Book value of the segment assets 31/12/2008	Book value of the segment assets 31/12/2007	Additions to tangible and intangible assets 2008	Additions to tangible and intangible assets 2007
Germany	108,498	73,704	828	1,091
EU excluding Germany	13,015	2,342	202	26
Other	1,342	359	15	31
Total	**122,855**	**76,405**	**1,285**	**1,148**

(35) INFORMATION ON BUSINESS WITH RELATED PARTIES AND COMPANIES

The subsidiary Phoenix Energy Investments AG acquired a stake in SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG in the financial year 2007. At that time, it granted an interest-bearing loan of kEUR 435 (previous year: kEUR 234) with a term up until the end of 2012 to SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG. Phoenix Solar Energy Investments AG took receipt of interest income of kEUR 24 in 2008 (previous year: kEUR 2) from the market-oriented interest on the loan of 6.5 percent.

Information on the shareholdings of the executive bodies:

Board of Directors	Number of shares 31/12/2008	Number of shares 31/12/2007
Manfred Bächler	183,530	183,530
Dr. Murray Cameron	69,750	69,750
Dr. Andreas Hänel	227,200	242,200
Sabine Kauper	190	0
Ulrich Reidenbach	160	0
Total	**480,830**	**495,480**

Supervisory Board	Number of shares 31/12/2008	Number of shares 31/12/2007
J. Michael Fischl	0	0
Ulrich Fröhner	18,600	24,600
Ulrich Th. Hirsch	0	0
Prof. Dr. Klaus Höfle	1,575	2,175
Dr. Patrick Schweisthal	0	5,450
Prof. Dr. Thomas Zinser	0	0
Total	**20,175**	**32,225**

As part of the 2006 Share Option Plan, the following share options were granted to the members of the Board of Directors:
Each member of the Board was granted 4,500 option rights in the financial year 2007; the fair value of an option on the grant date came to EUR 10.177. In the financial year 2008, each member of the Board active at the time was granted another 9,000 option rights; the fair value on the grant date came to EUR 20.174 per option right.

(36) CONTINGENT LIABILITIES

Contingent liabilities arise from customary contractually agreed guarantee obligations which may be drawn on in the context of contracts in the Power Plants segment and in respect of orders in the Components & Systems segment.

(37) CONTINGENT RECEIVABLES AND LIABILITIES

There are no contingent receivables.

(38) OTHER FINANCIAL OBLIGATIONS

The Group has financial liabilities totalling kEUR 4,227 (2007: kEUR 2,526) arising from a number of rental and leasing agreements. Of this total, an amount of kEUR 1,159 (2007: kEUR 503) is due within one year, the amount of kEUR 1,725 (2007: kEUR 1,084) has a residual term of between one and five years, and an amount of kEUR 1.343 (2007: kEUR 939) has a residual term of over five years.

On the reporting date, there was a purchase commitment of kEUR 21,107 (2007: kEUR 45,864) from a number of purchase agreements. The purchase commitment for assets which are part of non-current assets stood at kEUR 27 (2007: kEUR 23).

Obligations to purchase up until 2012 arising from framework agreements with manufacturers of photovoltaic modules came to kEUR 1,170,821 (2007: kEUR 737,682).

(39) RISK MANAGEMENT SYSTEM

Phoenix Solar AG is also 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 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 solely 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 actively managed 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 Group's cash flow (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 for 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 forex options in order to secure payments up until the following financial year. On the reporting date of 31 December 2008, the Group had forex swaps with a volume of kEUR 3,235 (2007: kEUR 740).

Accordingly, Phoenix Solar AG is exposed to market risk from certain forex derivatives, namely those used to secure underlyings and planned positions. The currency fluctuations underlying this type of financial instruments affect Other operating income and expenses (valuation result from the adjustment of financial assets to fair value). If the euro had appreciated or depreciated by ten percent in relation to all other currencies on 31 December 2008, Other operating income or expenses and the fair value of hedging transactions would have been kEUR 315 higher or kEUR 315 lower (31 December 2007: kEUR 2,051 higher or kEUR 758 lower). The hypothetical impact on the result is attributable to the currency sensitivities of the euro to the Japanese yen.

Monetary financial instruments (liquid funds, receivables, non-interest bearing liabilities) 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 ended 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 necessity to have active interest rate hedging in this area.

There are interest rate hedging measures envisaged for the financial year 2009 as, in the context of the syndicate financing concluded in November 2008, a contractual requirement of fixing the interest rate for half was agreed.

DEFAULT RISK

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

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

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

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 Phoenix Solar AG at all times, a liquidity reserve consisting of credit lines and cash funds has been set up. For this purpose, there were bilateral credit line agreements with an aggregated amount of kEUR 131,757 between Phoenix Solar AG and a total of eight banks and underwriters.

To finance the future growth of the Phoenix Group, Phoenix Solar concluded a syndicated loan of kEUR 150,000 with a term of three years on 20 November 2008. The loan replaces the former credit lines and will serve to finance the working capital of the Phoenix Solar Group and to cover its need for guarantees and letters of credit. The syndicate is made up of the company’s customary principal banks and a new bank. The lead manager and mandated lead arranger is BayernLB, Deutsche Bank will act as senior lead arranger, together with Dresdner Bank and HVB-Member of UniCredit Group, along with LfA Förderbank Bayern and the Fürstenfeldbruck Savings Bank as co-arrangers. In addition, there are unlimited guarantee credit line agreements on a bilateral basis with a volume of kEUR 28,000. All in all, the credit line came to kEUR 178,000 as per the reporting date.

(40) 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 (SOP) on 10 September 2007 (2006 Share Option Plan) under which a total of 76,500 share options (2007: 33,250) of Phoenix Solar AG can be issued to members of the Board of Directors, of 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 issued in 2007, 5,000 (2006: 1,250) have expired through employees leaving the company. Of the 76,500 options issued in 2008, 4,500 have expired through employees leaving the company. The plan will run for seven years for each issuing year. Each option right of SOP 2006 (2007) entitles the holder to subscribe to one ordinary share of the company at a strike price of EUR 19.32 per share. Each option right SOP 2006 (2008) entitles the holder to subscribe to one ordinary share of the company at a strike price of EUR 46.39 per share.

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

	SOP 2006 (2008)	SOP 2006 (2007)
Exercise strategy:	Earliest date when options can be exercised	Earliest date when options can be exercised
Grant date:	10/09/2008	10/09/2007
Valuation date:	10/09/2008	10/09/2007
Company's share price on the valuation date:	EUR 43.46	EUR 18.90
Vesting period:	2 years	2 years
Term (including vesting period):	7 years	7 years
Strike price:	EUR 46.39	EUR 19.32
Risk-free rate:	4.04 %	4.09 %
Volatility:	61.35 %	66.33 %
Annual dividend per share:	EUR 0.20	EUR 0.10
Due dates of dividend (acceptance):	ca 15 June of the respective year	
Number of simulations carried out:	10,000,000	10,000,000

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 subsequent years by 20 percentage points respectively.

The volatility of 61.35 percent was calculated as historical volatility from the share price performance of the company over the period from 19 November 2004 until 10 September 2008.

The risk-free rate was calculated using the Svensson method. Using this method of calculation, the value of an option under SOP 2006 (2007) came to EUR 10.177 and under SOP 2006 (2008) to EUR 20.174. The total amount of the 99,000 options to be valued is thus kEUR 1,727 (2007: kEUR 326).

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 kEUR 372 for the financial year 2008 (2007: kEUR 54).

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

(41) MATERIAL EVENTS AFTER THE REPORTING DATE

1. PURCHASE OF A PROJECT COMPANY WITH PROJECT RIGHTS IN ITALY

Phoenix Solar Energy Investments AG acquired all the shares in Scarlatti Srl., a company headquartered in Eppan an der Weinstraße, Italy, on 13 January 2009. Scarlatti holds the shares in four project companies under the condition precedent of achieving a status where construction can ultimately begin. These companies will develop a total of five projects for the construction of photovoltaic systems in Sicily with an overall peak power output of around 27 megawatt. Given successful project development, the construction of these plants has been scheduled for 2009 and 2010.

2. PHOENIX SOLAR AG RAISES THE VOLUME OF AND EXTENDS THE FRAMEWORK AGREEMENT WITH KGAL

On 14 January 2009, Phoenix Solar AG raised the volume of the framework agreement signed in September 2007 with KG Allgemeine Leasing GmbH & Co. (KGAL) by EUR 150 million and extended it up until 2011. The parties to the contract agreed that the Phoenix Group will develop large photovoltaic plants on behalf of KGAL and build them in the capacity of general contractor. The investment volume for the period from 2009 to 2011 comes to at least EUR 375 million. The target markets for the construction of the power plants are Germany, Spain, Italy, Greece, France and, in future, other countries with suitable economic conditions.

3. PHOENIX SOLAR AG RELEASES GUIDANCE FOR THE FINANCIAL YEAR 2009 AND OUTLOOK UNTIL 2013

Phoenix Solar AG released its guidance for the financial year 2009 on 27 January 2009. The Board of Directors anticipates consolidated revenues of around EUR 520 million and a Group EBIT of approximately EUR 31 million. More than 35 percent of revenues are to be generated by international business.

In addition, the Board of Directors gave a long-term outlook of the development envisaged for the company up until the year 2013; the Board anticipates consolidated revenues of EUR 1.5 billion and an EBIT of EUR 100 million. The share of international business is then to rise to more than 65 percent.

4. BOARD OF DIRECTORS PROPOSES TO RAISE THE DIVIDEND PAYMENT

On 10 March 2009, the Board of Directors of Phoenix Solar AG decided to put forward a proposal to the Annual General Meeting that a dividend of EUR 0.30 be paid for the financial year 2008 (2007: EUR 0.20). This resolution is subject to the adoption of the annual financial statements for the financial year 2008 and approval by the Supervisory Board.

The Board of Directors cites the Group's extremely successful performance over the course of the financial year 2008 as the reason for its dividend proposal and increase in dividend. At the same time, Phoenix Solar AG confirms its intention of pursuing an investor-oriented dividend policy aligned to the company's growth and its business situation. All 6,684,500 of the currently traded shares of Phoenix Solar AG are entitled to dividend.

The final dividend proposal to be put forward to the Annual General Meeting, which will take place on 19 May 2009, will be announced when the Annual General Meeting is convened.

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

(42) 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	Holding	Equity 31/12/2008 (IFRS) in k€	Result 2008 (IFRS) in k€
Shares in affiliated companies				
Phoenix Solar Energy Investments AG	Sulzemoos, Germany	100 %	6,684	4,014
Phoenix Solar Fonds Verwaltung GmbH (formerly Phönix SonnenFonds Verwaltungs GmbH)	Sulzemoos, Germany	100 %	50	6
Phoenix Solar S.L.	Madrid, Spain	100 %	2,573	1,263
Phoenix Solar Pte. Ltd.	Singapore	75 %	– 217	– 253
Renewable Energies Development 2002 S.r.l. (now called Phoenix Solar S.r.l.)	Rome, Italy	100 %	597	5
Phoenix Solar E.P.E.	Athens, Greece	100 %	– 118	– 148
Phoenix Solar Pty Ltd	Adelaide, Australia	100 %	– 63	– 72
TPC Photoenergy srl	Eppan a.d.W., Italy	100 %	– 5	– 31
Scarlatti Srl.	Eppan a.d.W., Italy	55.556 %	8	– 4
Participating Interests				
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos, Germany	31.2 %	1,482	104
SOLAR GRIECHENLAND Beteiligungs GmbH & Co. KG	Grünwald, Germany	50 %	282	10

(43) BOARD OF DIRECTORS OF THE PARENT COMPANY

- Dr. Andreas Hänel, Diplom-Ingenieur, Sulzemoos (Chairman of the Board)
- Manfred Bächler, Diplom-Ingenieur, Senden (Technology)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Operations)
- Sabine Kauper, Diplom-Betriebswirtin (FH), Merching (Finance)
- Ulrich Reidenbach, Diplom-Ingenieur, München (Sales)

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

The remuneration of the Board of Directors totalled kEUR 2,066 in 2008 (2007: kEUR 1,315), and breaks down as follows:

Board of Directors in k€	Fixed components	Performance-based components	Components with long-term incentive effect	Total
Dr. Andreas Hänel	143	242	182	567
Manfred Bächler	141	204	182	527
Dr. Murray Cameron	135	162	182	479
Sabine Kauper	136	162	182	480
Ulrich Reidenbach	13	0	0	13
Total	**568**	**770**	**728**	**2,066**

The components with long-term incentive effect are 36,000 subscription rights to the shares of Phoenix Solar AG. Each member of the Board of Directors active on the grant date was allocated 9,000 option rights; the fair value on the grant date was EUR 20.174 per option right.

Membership in Supervisory Board committees:

- Dr. Andreas Hänel is a member of the Supervisory Board of Phoenix Solar Energy Investments AG
- Manfred Bächler is member of the Supervisory Board of Phoenix Solar Energy Investments AG and of the Non Executive Board of Phoenix Solar Pte. Ltd., Singapore
- Dr. Murray Cameron is Chairman of the Non Executive Board der Phoenix Solar Pte. Ltd., Singapore
- Sabine Kauper is a member of the Non Executive Board of Phoenix Solar Pte. Ltd., Singapore, and a member of the Supervisory Board of Phoenix Solar S.r.l., Italy

(44) SUPERVISORY BOARD OF THE PARENT COMPANY

- J. Michael Fischl, Diplom-Kaufmann, 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, Diplom-Wirtschaftspädagoge, Management Director of Münchener Management Forum (MMF) and associate lecturer at three universities
- Dr. Patrick Schweisthal, Rohrbach, lawyer
- Prof. Dr. Thomas Zinser, Hohenschäftlarn, tax consultant and Head of the Tax Faculty at the Landshut University of Applied Sciences

Membership in other Supervisory Board committees:
- Dr. Patrick Schweisthal is the Chairman of the Supervisory Board of Phoenix Solar Energy Investments AG, Sulzemoos

The total remuneration of the Supervisory Board members came to kEUR 188 in the financial year 2008 (2007: kEUR 117) and breaks down as follows:

Supervisory Board in k€	Fixed components	Performance-based components	Components with long-term incentive effect	Total
J. Michael Fischl	23	36	0	59
Ulrich Fröhner	15	18	0	33
Ulrich Th. Hirsch	12	12	0	24
Prof. Dr. Klaus Höfle	12	12	0	24
Dr. Patrick Schweisthal	12	12	0	24
Prof. Dr. Thomas Zinser	12	12	0	24
Total	**86**	**102**	**0**	**188**

(45) FEES OF THE INDEPENDENT AUDITOR

The fees paid to the auditing company and subsequently booked as expenses in 2008 were as follows:

Fees of the independent auditor in k€	2008
Audit of the financial statements	142
Other certifying and valuation services	61
Total	**203**

Other certification and valuation services pertain mainly to accounting issues and review activities in connection with interim financial statements. The amounts include travel and other expenses.

(46) 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 19 March 2009.

(47) 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 13 FEBRUARY 2008

On February 13, 2008, UBS AG Zürich, Schweiz, has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Phoenix Solar Aktiengesellschaft, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9, have exceeded the 3 % limit of the Voting Rights on February 07, 2008 and now amount to 4.22 % (this corresponds to 256526 Voting Rights).

2. NOTIFICATION BY DGAP ON 25 FEBRUARY 2008

On February 25, 2008, UBS AG Zürich, Schweiz, has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Phoenix Solar Aktiengesellschaft, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9, have fallen below the 3 % limit of the Voting Rights on February 21, 2008 and now amount to 2.95 % (this corresponds to 179092 Voting Rights).

3. NOTIFICATION BY DGAP ON 4 APRIL 2008

Am 4. April 2008 informierte uns die Deutsche Bank über eine Stimmrechtsmitteilung ihrer Tochtergesellschaft DWS Investment GmbH, mit folgendem Wortlaut:

hiermit teilen wir Ihnen gemäß §§ 21 Abs. 1, 24 WpHG i.V.m. § 32 Abs. 2 InvG mit, dass unsere Tochtergesellschaft DWS Investment GmbH, Frankfurt, Deutschland, am 2. April 2008 die Schwelle von 5 % der Stimmrechte an der Phoenix Solar AG, Hirschbergstraße 8, 85254 Sulzemoos, Deutschland, unterschritten hat und nunmehr einen Stimmrechtsanteil von 4,85 % hält (dies entspricht 295.000 Stimmrechten).

4. NOTIFICATION BY DGAP ON 10 APRIL 2008

Am 10. April 2008 informierte uns die Deutsche Bank über eine Stimmrechtsmitteilung ihrer Tochtergesellschaft DWS Investment GmbH, mit folgendem Wortlaut:

hiermit teilen wir Ihnen gemäß §§ 21 Abs. 1, 24 WpHG i.V.m. § 32 Abs. 2 InvG mit, dass unsere Tochtergesellschaft DWS Investment GmbH, Frankfurt, Deutschland, am 9. April 2008 die Schwelle von 5 % der Stimmrechte an der Phoenix Solar AG, Hirschbergstraße 8, 85254 Sulzemoos, Deutschland, überschritten hat und nunmehr einen Stimmrechtsanteil von 5,16 % hält (dies entspricht 344.740 Stimmrechten).

5. NOTIFICATION BY DGAP ON 23 APRIL 2008

Am 23. April 2008 informierte uns die Deutsche Bank über eine Stimmrechtsmitteilung ihrer Tochtergesellschaft DWS Investment GmbH, mit folgendem Wortlaut:

hiermit teilen wir Ihnen gemäß §§ 21 Abs. 1, 24 WpHG i.V.m. § 32 Abs. 2 InvG mit, dass unsere Tochtergesellschaft DWS Investment GmbH, Frankfurt, Deutschland, am 22. April 2008 die Schwelle von 5 % der Stimmrechte an der Phoenix Solar AG, Hirschbergstraße 8, 85254 Sulzemoos, Deutschland, unterschritten hat und nunmehr einen Stimmrechtsanteil von 4,996 % hält (dies entspricht 333.934 Stimmrechten).

6. NOTIFICATION BY DGAP ON 4 APRIL 2008

On July 04, 2008, M.M. Warburg-LuxInvest S.A., Luxemburg, Luxemburg, has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Phoenix Solar Aktiengesellschaft, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9, have exceeded the 3 % limit of the Voting Rights on July 03, 2008 and now amount to 3.10 % (this corresponds to 207300 Voting Rights).

7. NOTIFICATION BY DGAP ON 29 SEPTEMBER 2008

On September 29, 2008 , M.M. Warburg-LuxInvest S.A., Luxemburg, Luxemburg, has informed us according to Article 21, Section 1 of the WpHG that via shares its Voting Rights on Phoenix Solar Aktiengesellschaft, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9, have exceeded the 3 % and 5 % limit of the Voting Rights on September 25, 2008 and now amount to 5.54 % (this corresponds to 369988 Voting Rights).

8. NOTIFICATION BY DGAP ON 16 OCTOBER 2008

Correction of a release of voting rights from 29/09/2008

On October 16, 2008, M.M. Warburg-LuxInvest S.A., Luxemburg, Luxemburg, has informed us about a correction of a release of voting rights from September 29, 2008, according to Article 21, Section 1 of the WpHG that via shares its voting rights on Phoenix Solar Aktiengesellschaft, Sulzemoos, Deutschland, ISIN: DE000A0BVU93, WKN: A0BVU9, have exceeded the 5 % limit of the voting rights on September 25, 2008 and now amount to 5.54 % (this corresponds to 369988 Voting Rights).

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 19 March 2009
Phoenix Solar Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel (Chief Executive Officer)	Manfred Bächler (Chief Technology Officer)	
Dr. Murray Cameron (Chief Operating Officer)	Sabine Kauper (Chief Financial Officer)	Ulrich Reidenbach (Chief Sales 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, 19 March 2009
Phoenix Solar Aktiengesellschaft
The Board of Directors

Dr. Andreas Hänel
(Chief Executive Officer)

Manfred Bächler
(Chief Technology Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Sabine Kauper
(Chief Financial Officer)

Ulrich Reidenbach
(Chief Sales 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 1 January to 31 December 2008. 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.

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) 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, 20 March 2009
AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. A. Haas	S. Denk
Certified Public Accountant	Certified Public Accountant

Abbreviations

AktG	Aktiengesetz (German Stock Corporation Act)
AUD	Australian dollar
B.I.R.D.	Beste Investor Relations Deutschland (Best Investor Relations Germany)
BMU	Bundesministerium für Umwelt (German Federal Ministry of the Environment)
BOS	Balance of System (see Glossary)
BSW	Bundesverband Solarwirtschaft (German Solar Industry Association)
CIGS	Copper Indium Gallium Diselenid (also: CIS, see Glossary)
CO_2	Carbon dioxide
CSO	Chief Sales Officer
DAX	Deutscher Aktienindex (German Share Index)
dena	Deutsche Energie Agentur (German Energy Agency)
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
ECB	European Central Bank
EEG	Erneuerbare-Energien-Gesetz (German Renewable Energies Act)
EPIA	European Photovoltaic Industry Association
ERP	Enterprise Resource Planning
EUR	Euro
Fifo	First-in-first-out
FSC	Forest Stewardship Council
FTE	Full-time equivalent on 40 hours basis
GCGC	German Corporate Governance Code
GW	Gigawatt
GWh	Gigawatt hour
GWp	Gigawatt peak power output
HGB	Handelsgesetzbuch (German Commercial Code)
HRB	Handelsregister B (German Commercial Register B)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICS	Internal Control System
IDW	Institut der Wirtschaftsprüfer (Institute of Public Accountants)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
InvG	Investmentgesetz (German Investment Act)
ISIN	International Securities Identification Number
IWR	Internationales Wirtschaftsforum Regenerative Energien (International Economic Platform for Renewable Energies)
JPY	Japanese yen
kW	Kilowatt
kWh	Kilowatt hour
kWp	Kilowatt peak power output
MW	Megawatt
MWp	Megawatt peak power output
NABU	Naturschutzbund Deutschland (German Nature and Biodiversity Conservation Union)
NAI	Natur-Aktien-Index (Nature Share Index)
PoC	Percentage of Completion
PSI	Phoenix Solar Energy Investments
PV	Photovoltaics
RD	Real Decreto (Royal Decree in Spain)
RENIXX®	World Renewable Energy Industrial Index
ROCE	Return on Capital Employed
SIC	Standing Interpretations Committee
SOP	Stock Options Plan
SRI	Social Responsible Investments
TecDAX	Technology DAX
USD	US dollar
VAT	Value-added tax
VorstOG	Gesetz über die Offenlegung der Vorstandsvergütungen (German Act on the Disclosure of Executive Board Remuneration)
WKN	Wertpapier-Kenn-Nummer (Securities Identification Number)
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

Particulate matter reduced by 2,600 kilograms

The screws alone which Phoenix Solar uses for the construction of new power plants come to an impressive 2,600 kilograms. This is the equivalent of a mountain of flour weighing 52 hundredweight or 2,600 packets of sugar or 10,400 pats of butter. But, when it comes down to something as good as photovoltaic systems, more can be less.

Glossary

AC
Abbreviation for alternating current.

ACCUMULATOR
An accumulator stores electrical energy. In photovoltaics, accumulators are used for stand-alone systems.

ALTERNATING CURRENT
Alternating current (AC) is electrical current where the direction and the voltage changes in accordance with certain laws of physics. Alternating current is found in most electrical grids (230 volts, 50 megahertz).

AMORPHOUS (A-SI) MODULES
Modules with amorphous silicon (a-Si) are a type of thin-film module. Their cells are made up of glass or metal panes which are coated with a thin layer of silicon. The name comes from the fact that, when the glass or metal is coated, the silicon atoms are not distributed in their crystalline structure but are spread amorphously all at random. A-Si modules can be recognised from their brown colour. Despite their lower level of efficiency in comparison with crystalline modules, amorphous modules are very efficient as they can also use weak, diffuse light better.

AMORTISATION (ENERGETIC)
Energetic amortisation (also known as energy return time) is the time which a solar electricity system needs to generate the energy used for its production and installation. When the period of its energetic amortisation has expired it balance of energy is then positive. There is no energetic amortisation in the case of power plants operated with fossil fuels.

BALANCE OF SYSTEM COSTS (BOS COSTS)
The balance of system (BOS) costs of a photovoltaic system are made up of the costs of all components except that of the modules. BOS costs comprise planning costs, construction preparation costs, the mounting system, DC cabling, inverters, 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 great potential for lowering costs.

CDTE MODULES
CdTe modules are thin-film modules which use the semiconductor material cadmium telluride to generate electricity. CdTe modules also work efficiently with diffuse light and differentiate themselves through a low temperature coefficient. The cadmium content is low. Heavy metal cannot be released non-technically, so there is no danger for the user or the environment.

CIS MODULES
CIS modules are a type of thin-film module whose solar cells are made up of several layers of copper indium diselenide which are doped with different impurities.

CRYSTALLINE MODULES
Crystalline modules are made of solar cells with crystalline silicon. A differentiation is made between modules with monocrystalline and polycrystalline (also known as multicrystalline) cells.

DC
Abbreviation for direct current.

DEGRESSION (OF FEED-IN TARIFFS)
The German Renewable Energies Act currently provides for an annual reduction in feed-in tariffs. For example, the feed-in tariff for on-roof systems newly constructed in 2009/2010 will fall by eight percent and by nine percent from 2011 onwards. A so-called sliding scale regulates growth: If the newly installed output in a year exceeds or falls below a defined growth corridor, digression is either raised or lowered by one percentage point in the following year. Digression is intended to promote competition in the solar industry and ensure that the cost of producing energy falls. The aim is for solar electricity to achieve grid parity as soon as possible.

DIRECT CURRENT
Direct current (DC) is an electric current which maintains the same direction and a constant electrical voltage. Solar modules produce direct current.

EFFICIENCY
The efficiency generally denotes the relationship between useful and used energy. The efficiency of solar cells indicates how much percent of the sun's energy is converted into electric charge.

FEED-IN TARIFFS
Feed-in tariffs constitute the price, as defined under the German Renewable Energies Act, which is paid for feeding solar electricity into the grid by energy utilities to the producers of solar electricity. The tariff rate per kilowatt hour depends on the type of photovoltaic system and its size, as well as on the year when it was commissioned. As from this date, it is guaranteed under the law for 20 years (plus the year when installation took place).

GERMAN RENEWABLE ENERGIES ACT
The German Renewable Energies Act (EEG), which is intended to promote the growth in renewable energies, entered into force in Germany on 29 March 2000 and, since this time, has regulated solar electricity fed into the grid and the remuneration (feed-in tariff) paid for it. The last amendment to the Act has been in force since 1 January 2009 and, in particular, provides for a swifter digression of the feed-in tariffs. In the meantime, the German Renewable Energies Act is regarded as a model and has already been used by a number of countries for similar legislation.

GRID-CONNECTED SYSTEMS
Solar electricity plants which are connected up to the grid and which constantly feed in solar electricity (electricity not used for their own purposes).

GRID PARITY
The grid parity of solar electricity means that this electricity can be offered to the end consumer at the same price as electricity generated from fossil-based sources of energy. Accordingly, the price for manufacturing one kilowatt hour of solar electricity is no higher than the price charged to the customer for electricity from the socket. Net parity is not therefore a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

INVERTERS
Inverters (also known as converters) are an integral component of solar electricity systems. They convert the direct current generated by the solar cells into alternating current which is compatible with the grid.

KILOWATT (KW)
Unit in which the output of a solar electricity system is measured.

KILOWATT HOUR (KWH)
Unit of measurement for energy used or generated. A kilowatt hour (kWh) equals one 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 on an amorphous silicon layer raises the absorbed light spectrum almost up to the infrared range. Micromorphous and tandem modules are therefore more efficient than amorphous modules.

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 centimetres in diameter. All crystal lattices are evenly distributed in monocrystalline. Monocrystalline cells are more efficient than polycrystalline cells but are also more expensive to manufacture. They can be recognised from their characteristic graphite colour.

NOMINAL OUTPUT
See peak power output.

PEAK POWER OUTPUT (PEAK OUTPUT)
The maximum power output possible from a solar electricity system under standard test conditions (STC) is defined as the peak power output (also known as peak power). It is measured in watt (W) and stated as watt peak (Wp).

PHOENIX POWER BRIDGE

The Phoenix Power Bridge is an innovative on-roof system developed by Phoenix Solar which can also be used for roofs which were formally not suitable for the construction of a photovoltaic system. The construction derives from the bridge building and allows span distances of up to six metres.

PHOENIX TECTO-SUN

Phoenix Tecto-Sun is a roof installation system developed by Phoenix Solar which enables photovoltaic systems to be swiftly and simply installed. It is the first one-roof installation system which has static calculations confirmed by an LGA audit (German Federal Trade Agency).

PHOTOVOLTAICS

Photovoltaics is defined as the environmentally compatible generating of electricity through tapping the sun's energy. In this process, solar cells in solar modules linked up to one another convert the sun's light into electricity.

POLYCRYSTALLINE (OR MULTICRYSTALLINE) CELLS

The basic material for polycrystalline cells is high-purity silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into wafers of 0.25 to 0.4 millimetres thick. The cells that result from this process 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 unmistakable, as is the bluish colour.

SOLAR CELLS

Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect) which generate direct current. Semi-conductor material is 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 released by photons. Voltage is tapped through the contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell.

SOLAR MODULES

A solar module is made up of many solar cells which are connected up to one another. To protect the cells from weather exposure they are embedded between two glass panes or between a glass pane and a Tedlar foil. Generally a differentiation is made between crystalline and thin-film modules.

SOLAR SILICON

Silicon crystals which have a sufficient degree of purity for photovoltaic applications are defined as solar silicon. In solar technology, monocrystalline or polycrystalline silicon is used to manufacture a larger part of solar cells.

STAND-ALONE SYSTEM

Stand-alone systems or plants (also known as off-grid systems) are photovoltaic systems which are operated independently of the grid and thus generate a self-sufficient supply of electricity. With these systems, the electricity produced is not fed into the grid but stored in accumulators where it is sourced for consumption. Stand-alone systems are particularly suitable for remote locations in regions with small or unstable grids or for areas where linking up to the grid would not be commercially viable.

STC (STANDARD TEST CONDITIONS)

The specific data of a solar module are measured under standard test conditions. Standard test conditions are defined as the solar irradiation of one kilowatt per square metre at an angle of 45 degrees and a module temperature of 25 degrees Celsius.

STRING

A string is the parallel wiring of a number of solar modules connected up electrically in a series.

TEMPERATURE COEFFICIENT

The temperature coefficient shows (in percent) how greatly the module output varies if the temperature (of the solar cell) rises.

THIN-FILM MODULES

In the manufacturing of thin-film modules, active photovoltaic layers are applied directly to a glass or metal pane. The thin coating of the active substance, e.g. amorphous silicon (a-Si), copper indium diselenide (CIS) or cadmium telluride (CdTe), reduces the amount of material used and the manufacturing costs. Thin-film modules have better temperature coefficients and are less sensitive to shadowing than crystalline modules.

WAFER

Wafers are round or rectangular silicon slices. In photovoltaics they are the basic component of crystalline solar cells.

Editorials

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FORWARD-LOOKING STATEMENTS

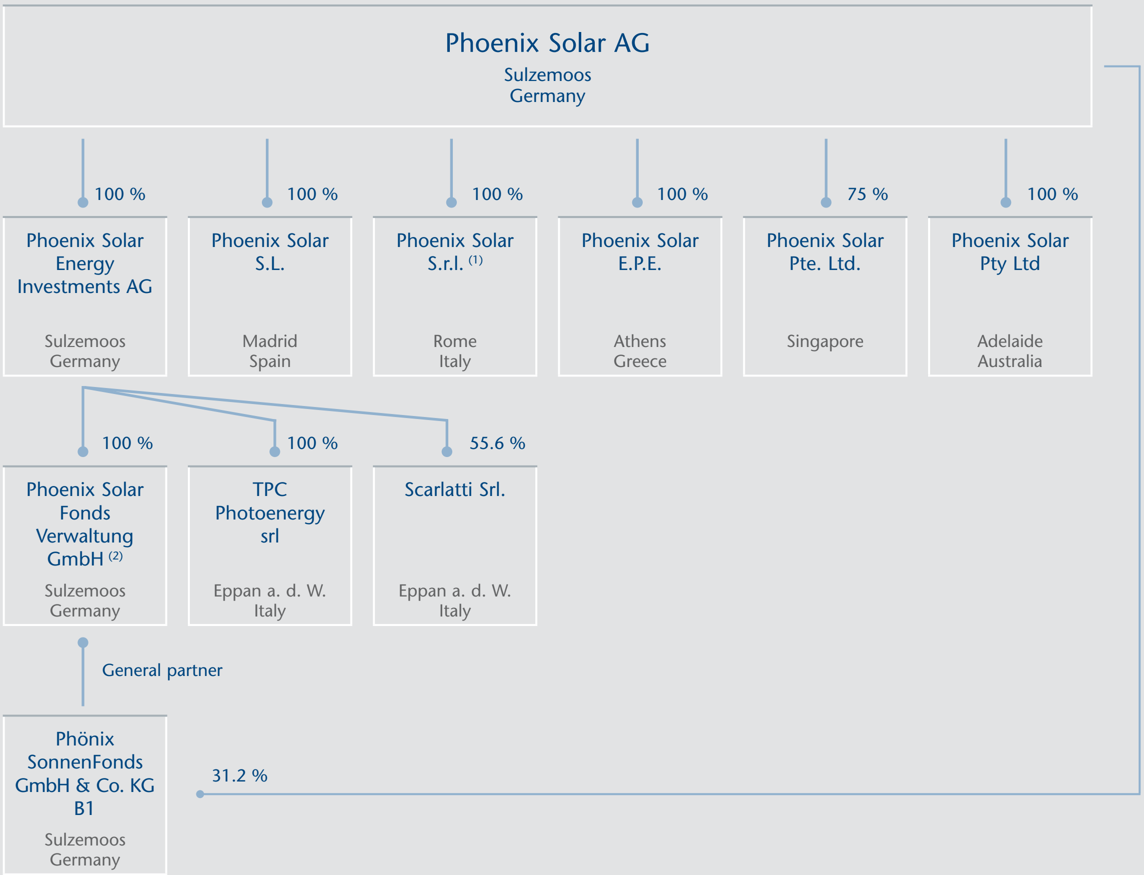
This report contains forward-looking statements on future developments which are based on management's current assessments. Words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "can/could", "plan", "project", "forecast", "should", and similar terms are indicative of such forward-looking 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 dependency on suppliers and the price development of solar modules, 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.

798 containers less of a global warming

Measured in terms of the year, we have installed more than two containers of modules a day. It goes without saying that assembly work must be done swiftly and each part must be perfectly aligned to the next. Time is, after all, solar electricity – and each day we gain a little more of it.

Group Structure and Business Activities

as at 31/12/2008



Phoenix Solar AG is a leading international photovoltaic system integrator listed on the TecDAX. Phoenix Solar AG plans, builds and undertakes the operation of large photovoltaic plants and is a specialist wholesaler for complete power plants, solar modules and accessories.

(1) renamed in December 2008, formerly Renewable Energies Development 2002 (RED 2002) S.r.l.
(2) renamed in August 2008, formerly Phönix SonnenFonds Verwaltungs GmbH

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FINANCIAL CALENDAR 2009

18/03/2009	Preliminary figures for the financial year 2008
23/04/2009	Annual Report 2008
14/05/2009	Q1 Report/Interim Figures as per 31/03/2009
19/05/2009	Annual General Meeting 2009
13/08/2009	Q2 Report/Interim Figures as per 30/06/2009
12/11/2009	Q3 Report/Interim Figures as per 30/09/2009

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.

Company History

1994	Founding of the Phönix Solar Initiative by the German Association of Energy Consumers (Bund der Energieverbraucher e. V.) with the aim of offering cost-effective, high quality thermal solar systems
1998	EU project "Phoenix PV" for the inclusion of photovoltaic systems in the Phönix Solar Initiative
18/11/1999	**Founding of the company under the name of Phönix SonnenStrom AG**
2000	Takeover of MHH Solartechnik GmbH, Ulm
2001	Private placement of one million shares (registered shares, securities code number 530960)
2002	Takeover of Phönix Projekt & Service AG, formerly SolAG
	Construction and commissioning of the first one megawatt plant on the roof of the new Munich Trade Fair Centre, at that time the largest roof-mounted system in the world
2004	OTC listing on the stock exchanges of Munich, Frankfurt am Main, Berlin/Bremen and Stuttgart; change of share class to bearer shares (securities code number A0BVU9)
2005	Construction and commissioning of the first multi-megawatt plant of 5.3 MWp in Miegersbach, Bavaria
2006	Founding of the Spanish subsidiary Phoenix Energía Solar S.L. (today Phoenix Solar S.L.) in Madrid
	Founding of the subsidiary Phoenix Solar Pte. Ltd., Singapore
	Admission to listing on the regulated market of the Frankfurt Stock Exchange (Prime Standard)
2007	Renaming of Phönix SonnenStrom AG as Phoenix Solar AG
	First-time distribution of a dividend
	Construction of a 6.5 megawatt plant in La Solana, Spain
	Market entry into Greece
2008	Renaming of Phönix Projekt & Service AG as Phoenix Solar Energy Investments AG
	Admission to the TecDAX of Deutsche Börse, Germany's technology index
	Founding of Phoenix Solar E.P.E in Athens, Greece
	Completion of the largest photovoltaic power plant in Greece with a peak output of one megawatt
	Founding of Phoenix Solar Pty Ltd, Adelaide, Australia
	Takeover of all shares in Renewable Energies Development 2002 S.r.l.; renaming as Phoenix Solar S.r.l., Rome, Italy

Making
energy
together

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