



**POTENTIALS**  
ANNUAL REPORT 2010

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REVENUES COMPOUND ANNUAL GROWTH RATE

~ 60 %

SALES VOLUMES OF SOLAR MODULES SINCE 1999

> 750 MWp

SHARE OF INTERNATIONAL BUSINESS BY 2013

65 %

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# POTENTIALS

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Sunlight is life force energy. Plants and animals have learnt to use the inexhaustible power of the sun in myriad ways. The power of the sun has been a major force influencing and controlling our climate and weather for millions of years. It is now up to us humans to harness this huge potential and tap it for a sustainable supply of energy. And the capacity of the sun is indeed vast: Its annual irradiation is three-thousand times the global need for energy. To develop this potential markets need suitable promotional programmes and more cost effective solar power plants. Therefore we are concertedly push photovoltaics all over the world – as a leading system integrator with global operations. Welcome to Phoenix Solar AG!

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# PHOENIX SOLAR AT A GLANCE

## Company profile

Phoenix Solar AG, which has its headquarters in Sulzemoos near Munich, is a leading international photovoltaic system integrator. The listed company develops, plans, builds and takes over the operation of large-scale photovoltaic plants and is a specialist wholesaler for complete power plants, solar modules and accessories. The Group is a leader in photovoltaic system technology. It focuses on the consistent lowering of system costs. Phoenix Solar maintains a sales network throughout Germany and subsidiaries in Spain, Italy, Greece, France, Singapore, Malaysia, Oman, Australia and the United States of America.

## Overview of financial figures

		01/01/2010 – 31/12/2010	01/01/2009 – 31/12/2009	Change in %
<b>Revenues and results</b>				
Revenues	k€	635,676	473,032	34.4
– Domestic	k€	471,199	445,388	5.8
– International	k€	164,477	27,644	495.0
Overall performance	k€	635,839	456,160	39.4
EBIT	k€	36,400	12,176	198.9
– In % of revenues (EBIT margin)	%	5.7	2.6	119.2
Consolidated net income for the period	k€	24,134	8,555	182.1
Orders on hand	k€	158,309	296,100	- 46.5
<b>Balance sheet<sup>1</sup></b>				
Total assets	k€	313,307	182,232	71.9
Equity	k€	142,445	97,264	46.5
Equity ratio	%	45.5	53.4	- 14.8
Return on equity	%	24.8	9.6	158.3
<b>Employees<sup>1</sup></b>				
Employees <sup>2</sup>	Heads	313	240	30.4
Revenues per capita <sup>3</sup>	k€	1,995	1,974	1.1
<b>Phoenix Solar share<sup>1</sup></b>				
No-par bearer shares	Units	7,372,700	6,700,700	10.0
Closing price	€	23.70	42.23	- 43.9
Market capitalisation	k€	174,733	282,971	- 38.3
Earnings per share				
– Basic	€	3.44	1.28	168.8
– Diluted	€	3.44	1.28	168.8
Dividend per share	€	0.35 <sup>4</sup>	0.20	75.0

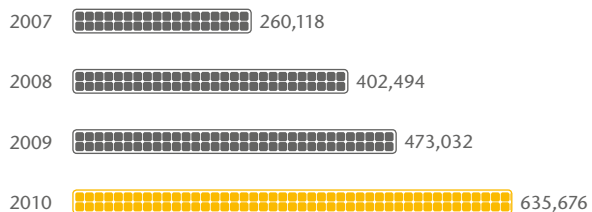
<sup>1</sup> At the end of the period

<sup>2</sup> Average employee number, including part-time and temporary staff

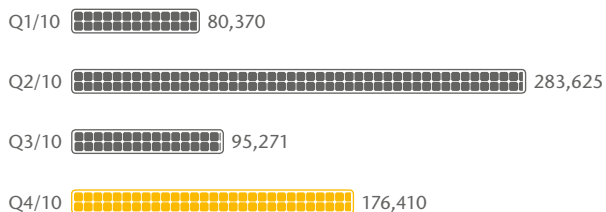
<sup>3</sup> Full-time equivalent

<sup>4</sup> Dividend distribution proposal

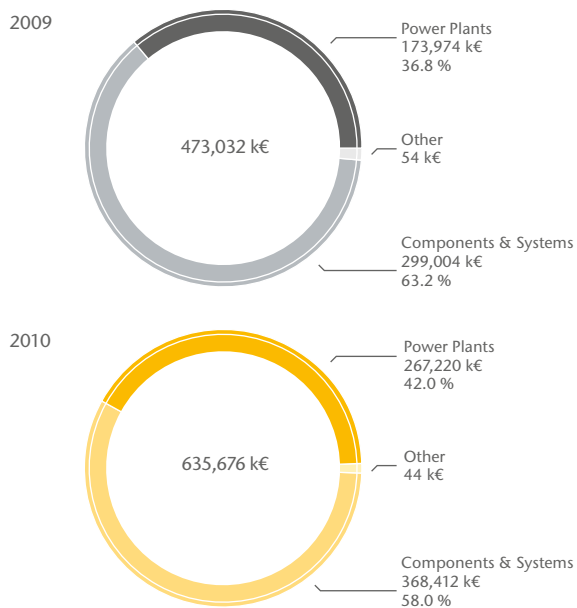
Revenues in k€



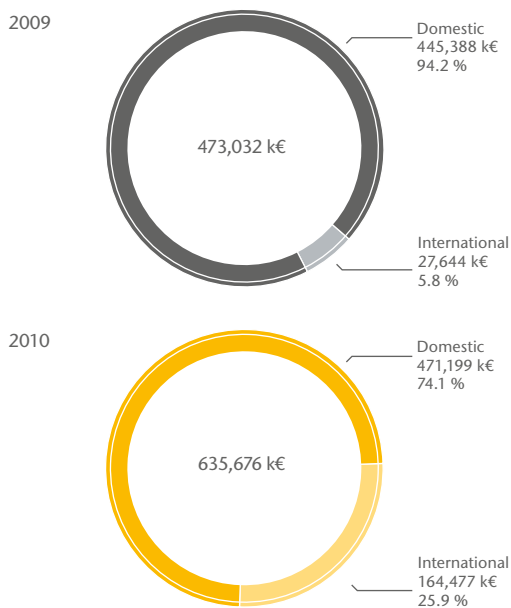
Revenues by quarter in k€



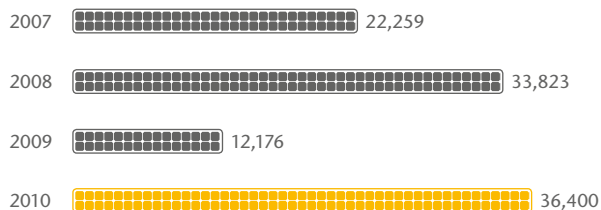
Revenues by segment



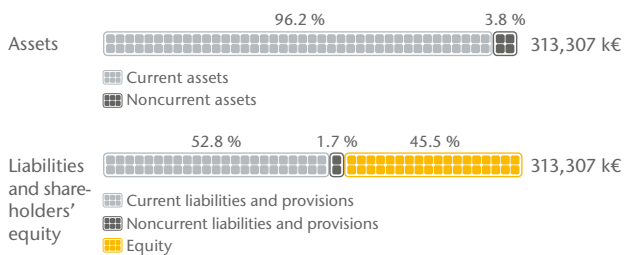
Revenues by region



EBIT in k€



Balance sheet 2010



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Our US subsidiary in California successfully took up its business activities in 2010 in North America's largest and most attractive solar market.



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### GROWTH POTENTIAL IN SUNNY FUTURE MARKETS

Flagship projects in Singapore, a solar power plant in the Gulf Region: The name “Phoenix Solar” is becoming increasingly established in the sunbelt countries of Asia.



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### FURTHER MARKET POTENTIAL IN OTHER EUROPEAN COUNTRIES

Attractive subsidy conditions and a positive administrative environment – in 2010 we generated our largest proportion of international revenues in Italy.

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Financial calendar

Group structure

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42 °C

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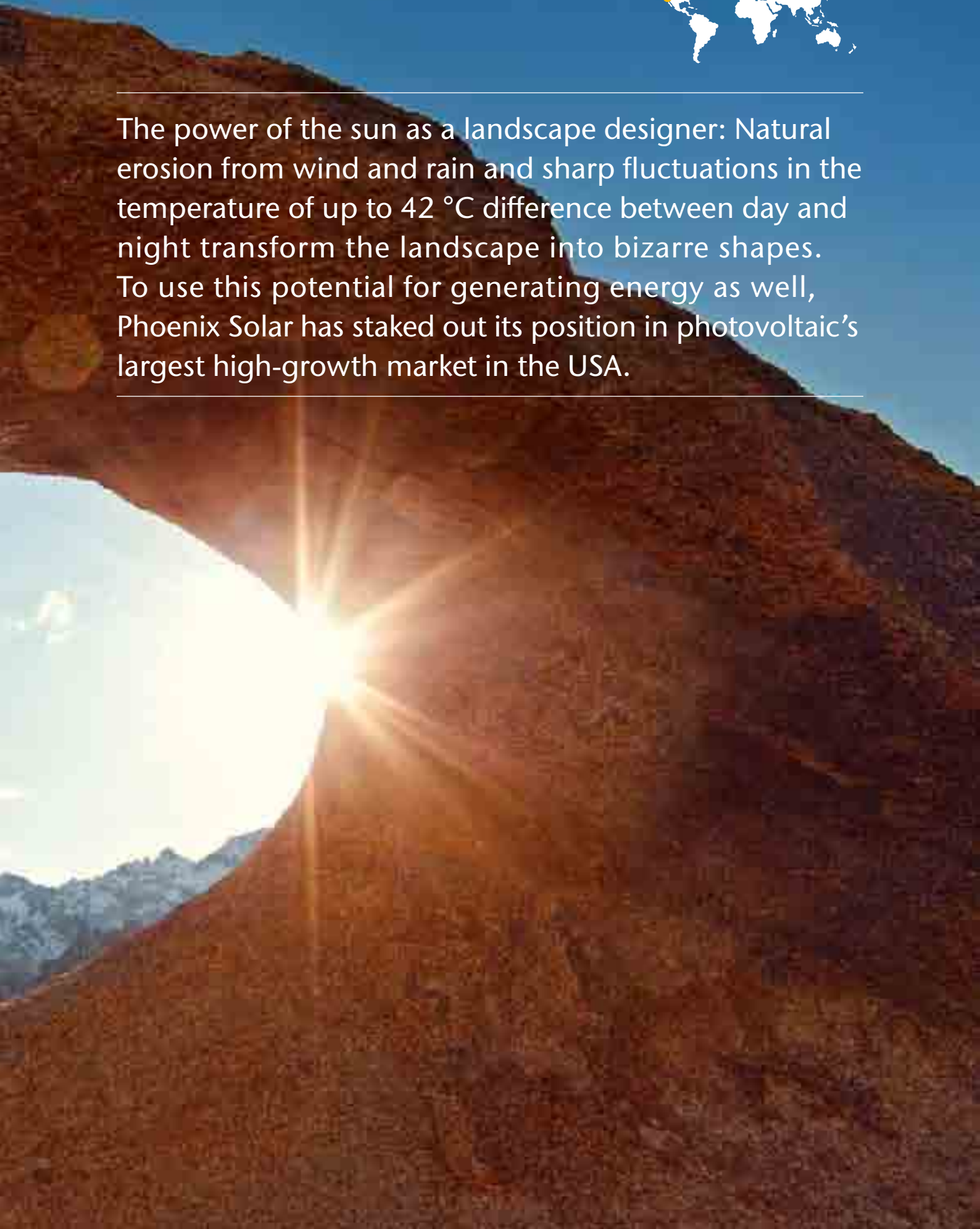
*Mobius Arch in Sierra Nevada, California, USA*



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The power of the sun as a landscape designer: Natural erosion from wind and rain and sharp fluctuations in the temperature of up to 42 °C difference between day and night transform the landscape into bizarre shapes. To use this potential for generating energy as well, Phoenix Solar has staked out its position in photovoltaic's largest high-growth market in the USA.

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Photovoltaics is conquering the world. And wherever its growth is swiftest Phoenix Solar is stepping up its international activities: In July 2010, our US subsidiary took up its business activities in California, North America's largest and most attractive solar market with immense potential.

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The US market is very attractive for Phoenix Solar. According to forecasts, it will replace Germany as the world's largest photovoltaic market in the near term. The consultancy company Roland Berger and the research institute Prognos anticipate higher annual average growth rates than in Asia in the medium term. The total installed capacity of solar plants in the USA will come to 100 GWp by 2020 according to a study.

**33 %**

is the target percentage volume of renewable energies in the electricity mix of 2020 in the US state of California.

The preconditions are ideal: Annual solar irradiation in the Southwestern states is excellent – averaging around 2,300 kWh per square metre, which is therefore double that of Germany – and the US citizens' need for electricity is huge. In addition, the market incentive programme, launched by the US government at the start of 2009, stepped up the promotion of renewable energies.

#### US MARKET ON THE THRESHOLD OF A BOOM – PHOENIX SOLAR IS ON THE SPOT

California dominates the US photovoltaic market, with a market share of 51 percent in 2009. The state intends to raise the share of renewable energies in the electricity mix to 33 percent by 2020. Being established here will greatly facilitate market entry into the neighbouring states of Nevada and Arizona. By founding its subsidiary in San Ramon near San Francisco, Phoenix Solar AG has taken up its activities in the market. Our management team is made up of experienced experts who have the best contacts and can contribute in-depth knowledge in all areas of the US energy market.

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**I am delighted to be leading the expansion of Phoenix Solar in the US market. The parent company has an excellent reputation in the planning and construction of solar power plants to high standards. We would like to use these strengths in building up the subsidiary.**

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Paul Caudill, CEO and President of Phoenix Solar Inc.



Ambitious goals: The US business is to make a major contribution to lifting the Group's revenues to 65 percent by 2013.


**FOCUS ON THE POWER PLANT BUSINESS**

According to extensive analyses, the greatest opportunities are to be had in the power plant business. The Californian subsidiary will therefore be building up its activities based on its parent company's proven track record in development, planning, logistics and construction competence and its operation and maintenance know-how. Our US team is in contact with project developers, independent energy producers and energy suppliers and has set about consistently acquiring companies and public-sector facilities which, for instance, have suitable rooftop surface areas.

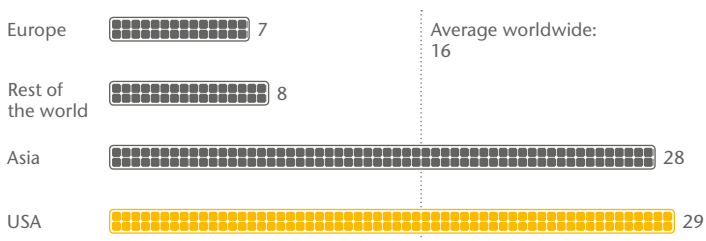
**GERMAN SYSTEM KNOW-HOW IS BECOMING INCREASINGLY IMPORTANT**

We view ourselves as innovation leader in system integration and use every opportunity to lower the system costs for our customers. The name "Phoenix Solar" is already known in the US photovoltaic expert community.

The American team is planning a swift and targeted expansion into the South-western states and the East Coast of the USA. Our medium-term goal is to secure a strong market position for Phoenix Solar with selected partner companies. Among our partners, whose strengths and requirements ideally supplement our portfolio, we have high-profile module manufacturers with production facilities in the USA and other innovative companies in the photovoltaic sector.

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Yearly growth rate of solar industry by regions until 2020 in %



Source: Roland Berger, November 2010

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# TO OUR SHAREHOLDERS

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# LETTER TO OUR SHAREHOLDERS



Phoenix Solar set new benchmarks for revenues and profit in 2010 and raised the proportion of its international business almost sixfold – in a very challenging market situation. Not only Germany but also other European countries have curtailed their promotional programmes. The financing of large power plant projects is also becoming increasingly difficult and the competition fiercer. In this general environment, we raised our revenues by around 34 percent to a new record high of EUR 635.7 million and delivered our best ever earnings before interest and taxes (EBIT) of EUR 36.4 million. My Executive Board colleagues and I view this performance as affirmation of our corporate strategy. It also enables us to propose payment of EUR 0.35 per share – the highest dividend in the company’s history – to the Annual General Meeting of Shareholders on 14 July 2011.

Allow me to go into more detail about Germany as our home market: Alongside the scheduled reduction in feed-in tariffs under the German Renewable Energies Act (EEG) at the start of 2010, political choices paved the way for the unscheduled lowering of tariffs on 1 July and 1 October, triggering upfront buying effects which resulted the highest revenues achieved to date in a second quarter.

Nonetheless, we did not quite reach our original revenue target. The fourth quarter is normally the strongest but in 2010 the seasonal year-end rally generally failed to materialise. The main reasons were a slowdown in the market in the second half of the year and the early onset of winter in Europe. By contrast, our international business, developed very well. It grew by 25.9 percent in the past financial year. True to our announcement the year before, Phoenix Solar AG has therefore resolutely and successfully continued to build up its international presence.

We have been growing more swiftly than the market for many years now and have been consistently turning a profit since 2004. A major reason for this stable development is our flexible business model which enables us to respond swiftly to changes in general conditions. This is a challenge for all our departments and Group companies alike. At this point, therefore, I would like to express my thanks to our employees. They have done an outstanding job!

What about forecasts for the photovoltaic market in 2011? We believe that the global market will stagnate in 2011, not only because of the exceptionally strong growth last year but also because of more difficult circumstances for government funding in our key markets, examples being Italy and France. As regards Germany, we assume there will be a decline in the market, which is also the intention of the photovoltaic industry. Installed capacity in 2010 may, however, come to around peak power of 5 to 6 gigawatt (GWp), thus remaining at a high level.

Phoenix Solar intends to raise the share of its international business. Indeed, the year 2011 has begun with new international projects. Our subsidiary in Oman, for instance, will have completed a flagship project for the Saudi Arabian Oil Company by the end of September. This is a grid-connected ground-mounted power plant on the premises of the world's largest energy research centre. In addition, we are currently building two solar parks in France. With our future-oriented international power plant projects, we have set in place the best prerequisites for pushing back the frontiers into new markets and segments. Phoenix Solar has a global presence and operates in Europe's most important photovoltaic markets, in the Middle East, Southeast Asia and, since 2010, in the USA.

We are convinced that the importance of photovoltaics for the modern energy environment is set to grow. The world's awareness of the imperative of securing a supply of energy which protects the climate and safeguards us humans as well as our economies from imponderable risks is rising, especially in view of the ongoing nuclear catastrophe in Japan. The spectacular threat from the Fukushima nuclear plant and the unforeseeable consequences serve to document the following in an all too dramatic way: There are no alternatives to building up renewable energies!

For many years the criticism has been that photovoltaics can only make a small contribution to the electricity supply. In the meantime, however, the share of solar electricity in the grid has already reached 20 percent around midday on sunny days in some of Germany's federal states. Electricity production costs incurred by photovoltaics have halved since 2006, and in 2011 the entire portfolio of photovoltaic systems installed and promoted under the EEG since the year 2000 is expected to reach breakeven. This is the result of a study commissioned by Phoenix Solar. Today large ground-mounted power plants are already generating electricity at prices which are considerably below those charged for household electricity. From our standpoint, therefore, reassessing photovoltaics against conventional energy technologies is urgently required.

Dear Shareholders, we are well equipped to tap the enormous potential of photovoltaics in all of the world's important markets. We have independent system know-how, skilled and experienced employees and the necessary flexibility. Above all, we feel strongly committed to making a contribution to a sustainable supply of energy which will secure a higher standard of living for all of us – today and tomorrow. Thank you for your trust!

With sunny greetings,



**Dr. Andreas Hänel**  
(Chief Executive Officer)

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SHARE OF INTERNATIONAL REVENUES ABOVE BUDGET

25.9 %

BEST EARNINGS BEFORE INTEREST AND TAXES (EBIT)

€ 36.4 m

HIGHEST DIVIDEND IN THE HISTORY OF THE COMPANY

€ 0.35

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# EXECUTIVE BOARD OF PHOENIX SOLAR AG

## DR. ANDREAS HÄNEL

Chief Executive Officer (CEO)  
Born in 1958

Founding member of the company,  
sole member as from 1999 and  
Chairman of the Executive Board since 2000

Responsible for

- Corporate Strategy & Business Development
- Corporate Communications
- Corporate Infrastructure

## SABINE KAUPER

Chief Financial Officer (CFO)  
Born in 1968

Member of the Executive Board since 2007

Responsible for

- Finance
- Personnel and Organisation Development
- International Processes & IT
- Internal Audit
- Law

## ULRICH REIDENBACH

Chief Sales Officer (CSO)  
Born in 1959

Member of the Executive Board since 2008

Responsible for

- International Sales in  
Components & Systems and  
Power Plants segments
- Marketing

## DR. MURRAY CAMERON

Chief Operating Officer (COO)  
Born in 1962

Founding member of the company and  
member of the Executive Board since 2003

Responsible for

- Procurement and Purchasing
- Logistics
- Public & Governmental Affairs

## MANFRED BÄCHLER

Chief Technology Officer (CTO)  
(until 31 December 2010)  
Born in 1963

Member of the Executive Board  
from 2000 to 2010

Responsible for

- Power Plant Construction and Standard<sup>1</sup>
- Power Plant Operation & Maintenance<sup>2</sup>
- Technology & Innovation<sup>2</sup>
- Quality Assurance & Customer Service<sup>3</sup>

<sup>1</sup> Responsible since 1 January 2011: Ulrich Reidenbach

<sup>2</sup> Responsible since 1 January 2011: Dr. Andreas Hänel

<sup>3</sup> Responsible since 1 January 2011: Dr. Murray Cameron





# INTERVIEW WITH EXECUTIVE BOARD



## COMPETITIVE SOLAR ELECTRICITY

*Dr. Andreas Hänel*  
Chief Executive Officer

### CUTBACKS IN THE PROMOTION OF SOLAR ENERGY ACROSS THE BOARD: WHAT DOES THIS MEAN FOR THE GLOBAL PHOTOVOLTAIC MARKET AND FOR PHOENIX SOLAR?

In our opinion, the global market is initially set to stagnate 2011 and then subsequently pick up momentum again in 2012. Phoenix Solar will be focusing to a greater extent on the potential of countries outside Germany and will continue to raise the share of international business which is already around 25 percent. The good thing about curtailing feed-in tariffs is that prices have to fall further. This means that photovoltaic electricity will gradually become more competitive as against other power generation options and thus increasingly attractive.

### KEYWORD EEG LEVY. IS THE VALUE OF PHOTOVOLTAICS MEASURED APPROPRIATELY TODAY?

The more renewable energies are fed into the grid, the further prices on the European Power Exchange (EPEX) in Leipzig fall. Electricity suppliers, however, are raising prices. Blaming photovoltaics for this is a fairy tale fabricated by these companies: 85 percent of the price hikes in the last decade have nothing to do with renewable energies. This was recently affirmed by the German Federal Environment Agency.



## STABLE FINANCING BASE IN A DYNAMIC ENVIRONMENT

*Sabine Kauper*  
Chief Financial Officer

### IN 2010, PHOENIX SOLAR AG CARRIED OUT A CAPITAL INCREASE. WHAT CORPORATE FINANCING IS THERE IN 2011?

Of the various alternatives, the syndicated loan continues to play the most important role. With its variable options, it is the ideal form of financing our working capital. The flexible utilisation options of sureties, guarantees and cash loans in particular suit our needs as a growing company in an extremely changeable market environment. Moreover, we pay attention to having a suitable equity ratio. We can therefore show our business partners and the capital market that the company has a secure and stable financing base.

### DOES THE GROWING INTERNATIONALISATION OF BUSINESS ACTIVITIES AFFECT THE RECRUITING OF PERSONNEL?

Yes. The proportion of foreign employees in Germany and in our locations all over the world will continue to rise steadily. In the meantime, we have more than 400 people working for Phoenix Solar from more than 20 countries. Due to our ongoing internationalisation, we are looking first and foremost for people to take on special functions and management tasks. Our ideal candidates will believe in the potential of photovoltaics and have international experience and language skills.



## MORE SERVICES IN GERMANY, NEW OPPORTUNITIES ABROAD

*Ulrich Reidenbach*  
Chief Sales Officer

### GERMANY AS DOMESTIC MARKET, USA AS FUTURE MARKET: WHAT SALES STRATEGY DOES PHOENIX SOLAR PURSUE?

In Germany, we are in the process of consistently broadening our services for our sales partners and offering our customers value added, for instance through improved configuration software and marketing support. The ground was carefully prepared for expansion into the North American market. Following an analysis of the overall market, the potential of each individual region was surveyed. The result: We will initially be focusing on the promising power plant business, and California is our first choice here. In 2011, we intend to generate our first revenues in the USA.

### WHICH SOLAR ELECTRICITY PROJECTS REALISED BY PHOENIX SOLAR WILL BE FUTURE BENCHMARKS?

Particularly noteworthy is the 3.5 MWp solar power plant for the Saudi Arabian Oil Company, our first project in the Middle East of this size. We can deliver proof of our technological and innovative competence through this project. We will also provide new impetus through rooftop photovoltaic power plants on industrial and commercial buildings and carports, first and foremost in Europe. We are currently working more intensively on larger ground-mounted projects in the Asian markets.



## INDEPENDENCE IS BECOMING INCREASINGLY VALUABLE

*Dr. Murray Cameron*  
Chief Operations Officer

### WHAT CHALLENGES WILL THERE BE FOR PROCUREMENT AND LOGISTICS IN 2011?

An increasingly prominent characteristic of the photovoltaic business is the degree to which industry is able to exploit existing cost reduction potential across the whole value chain. Our advantage: We act as an interface between manufacturers and end customers. As an independent system integrator we buy all over the world, are open to new technologies at any time and have a flat cost structure. We are therefore able to adjust more swiftly to changes in the market.

### YOU ARE ALSO RESPONSIBLE FOR “PUBLIC & GOVERNMENTAL AFFAIRS” – WHAT IS THIS EXACTLY?

Expressed in more complex terms: the strategic management of decision processes at the interface between politics, business and society. It essentially means making Phoenix Solar and the photovoltaic industry heard, fostering contacts to decision makers, and putting our position forward in discussions on the legal framework.

# COMPANY PROFILE AND BUSINESS MODEL

## WE ARE PIONEERS IN PHOTOVOLTAICS

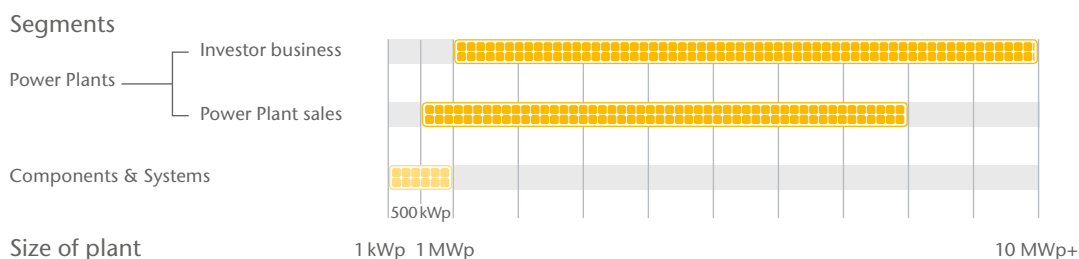
Releasing potential – this has always been one of the forces driving us at Phoenix Solar: From the company’s beginnings as a private solar initiative in Germany in 1999, we have played a major role in ensuring that photovoltaics becomes increasingly competitive and in accelerating its broad-based introduction into markets all over the world. Today Phoenix Solar AG with its global operations ranks among the world’s leading photovoltaic system integrators. We develop, design and build large-scale photovoltaic power plants and take over their operation, as well as being a specialist wholesaler for turnkey photovoltaic systems, solar modules and accessories. This dual function enables Phoenix Solar to cover all system dimensions, from 1 kilowatt systems for the rooftops of private households right through to solar power plants in the multi-megawatt category. We have been turning a profit since 2004 and have recorded an annual revenue growth averaging more than 60 percent.

Photovoltaics is one of the fastest growing segments in the market of renewable energies. In Germany alone, around 7.4 GWp of solar electricity output was installed according to preliminary figures in 2010 which, in comparison with 2009, is an increase of 94.8 percent. Market research experts forecast double-digit growth rates in some countries in Europe and, above all, in Asia and North America in the coming years. We are optimally positioned to exploit these opportunities in the market. Today international business already makes up 25.9 percent of Phoenix Solar AG’s revenues.

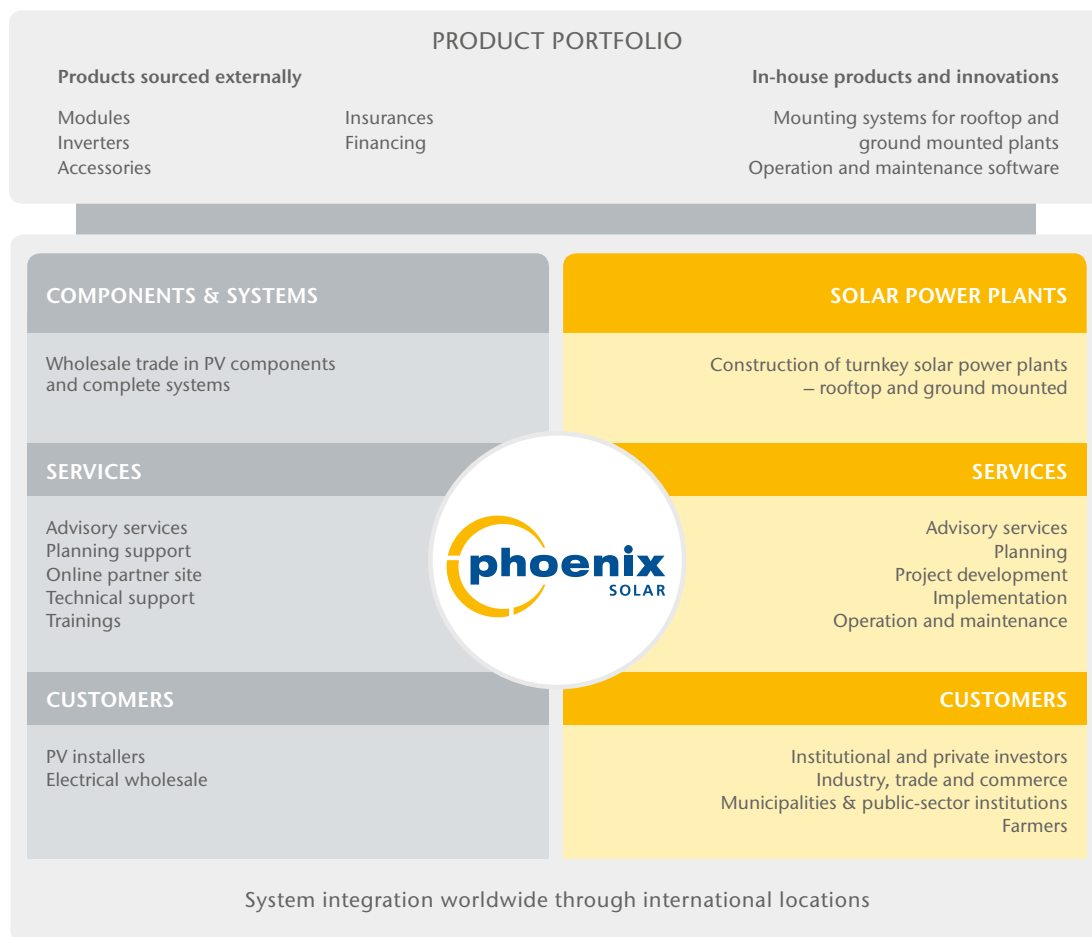
## OUR FOCUS IS ON PHOTOVOLTAIC SYSTEM TECHNOLOGY

We have built up our own unique expertise as a photovoltaic specialist. With its finger on the pulse of the market, Phoenix Solar sets benchmarks in system technology with its own in-house developments and products sourced externally. We screen the whole market, seeking out the best technologies and components, to be able to offer our customers the best system solution – for use on roofs or in free fields, while taking special account of the specific circumstances of the location. In doing so, we now occupy a key position: For the manufacturers of photovoltaic modules we are the gateway to the end customer, for investors and operators we are the guarantor of the long-term profitability of solar power plants, and for retailers and electrical wholesalers we are a reliable supplier of high-quality components and customised photovoltaic facilities. Because our business activities are positioned at the end of the value chain, we are close to the customer and in a position to act swiftly and flexibly.

### Products portfolio



Business model



WE HAVE TWO SEGMENTS AND ONE GOAL

The Phoenix Group operates in two areas of business which complement each other ideally: Components & Systems and Power Plants. Both are geared to long-term business relationships and pursue the goal of keeping system costs to a minimum while providing the best possible support for our customers.

In our capacity as a wholesaler for photovoltaic components and turnkey systems, in our Components & Systems segment we offer customised solutions and support our partners in consultancy and planning activities, with logistics services, technical training for sales and installation, as well as operating a service hotline for retailers. Our customers in this segment include retailers and installation companies, such as electrical installation service providers, electronics retailers and wholesalers, heating/sanitary installation companies and roofing operations as well as specialist solar companies. Phoenix Solar has a tightly knit partner network which operates throughout the whole of Germany and is currently in the process of gradually building up similar structures in the international markets. Actively fostered partnerships and mutual trust are the basis on which we build successful cooperations.

As a system integrator we provide end-to-end services for large-scale rooftop and ground-mounted power plants in our Power Plants segment – from consultancy services and planning as well as project development across turnkey construction through to the plant operation. Our portfolio of services also includes support with financing, as well as maintenance and repair. The Operation & Maintenance department in Ulm monitors the output and key performance data of the power plants in real-time via remote data readout and ensures swift response times in the event of a failure through its 24-hour standby service, thus securing steady return. Along with private individuals, farmers and institutional investors, customers of the Power Plants segment include businesses from industry, trade and commerce, energy utilities and municipalities and public-sector institutions.

#### WE CREATE VALUABLE SYNERGIES

Thanks to close cooperation with the manufacturers, know-how from the Power Plants segment is directly transferred into developing and optimising products and services in the Components & Systems segment. The strategic link between the two segments benefits each and every customer. Moreover, using the same intermediate products in the installation of modules across the segments gives us a great deal of flexibility, enabling us, if necessary, to balance out demand and strengthen our procurement position in the market.

#### OUR STRENGTH IS OUR INDEPENDENCE

The solar market is growing swiftly and demands a high level of flexibility from all market participants. As a system integrator operating independently of manufacturers, we gear our range of products and services to our customers' requirements and are in a position to offer new technologies at any time. Through this head start we have assumed a pioneering role which has made us market leader in thin-film modules, for instance. In 2009, Phoenix Solar sold around 13 percent of all solar modules produced worldwide with thin-film technology.

Whether crystalline or thin-film modules, string inverters or central inverters, intelligent rooftop solutions or cost-effective mounting systems: we combine quality benchmark products and services "Made in Germany" with an international market presence.

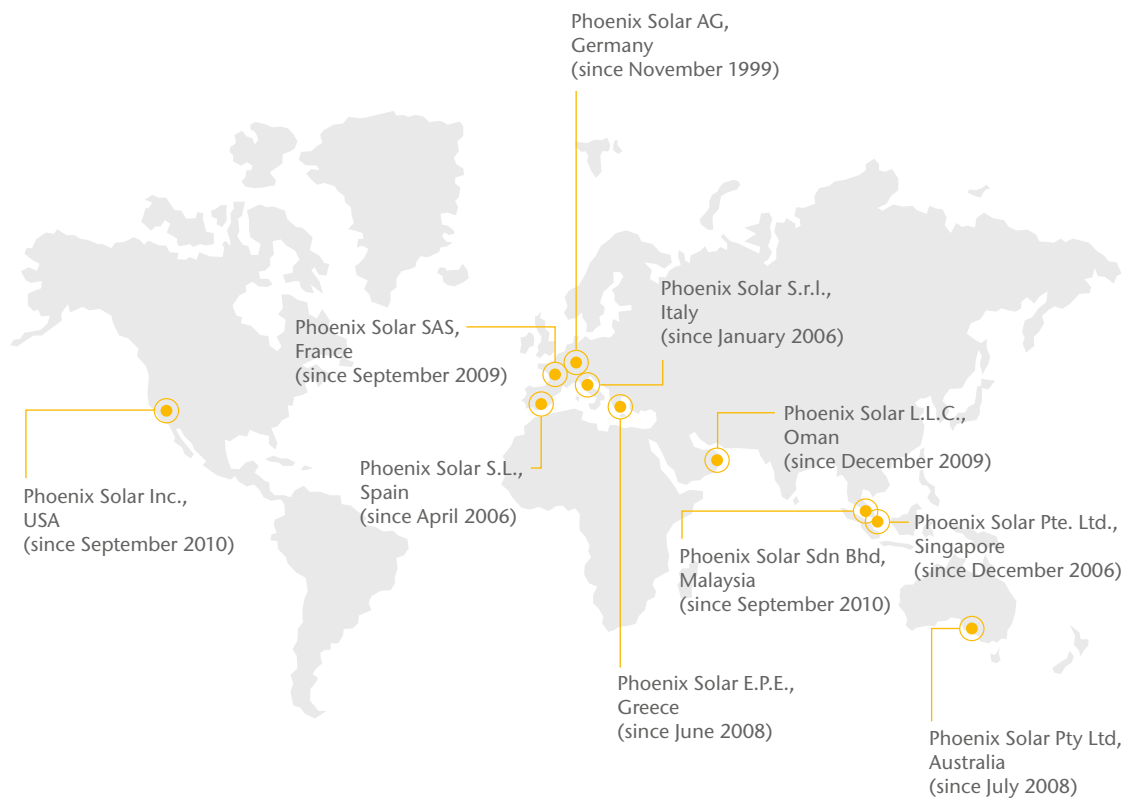
Our strategic competitive advantages in an increasingly dynamic market environment:

- We operate in all our respective photovoltaic markets independently of manufacturers, with a neutral approach to technology, and serve customer segments in a targeted way.
- We offer our customers added value through system innovations in the Power Plants segment and an outstanding product and service portfolio in the Components & Systems segment.
- We hold fast to our business model, identify new opportunities in the market at an early stage and flexibly align our activities to respond to these opportunities.

## WE ARE CLOSE TO THE CUSTOMER – ALL OVER THE WORLD

Our home market is Germany. Phoenix Solar nonetheless operates today through its own subsidiaries in all the key markets of photovoltaics – in Europe and Asia, in the Gulf Region and, since mid-2010, in the USA as well. We offer our products and services around the world. Proximity to the customer and agility in the various markets are what set us apart – both in technological and in financial terms. Our low volume of capital commitment, sound financial base and efficient partners give us the degree of flexibility we need to selectively tap growth potential in all market regions.

### Company locations



## MAKING ENERGY TOGETHER – THAT'S WHAT WE STAND FOR

For us, each newly installed photovoltaic system is another step on the way towards a big goal. Our vision: A world in which renewable energy improves the quality of life is our world. We make extensive use of the inexhaustible power of the sun to generate electricity. This is how we shape the energy supply of today and tomorrow.

Our mission is to pave the way into a new age of energy with solar electricity: Making energy together. Our wide range of products and services delivers tailored solutions for our customers. Our competence in consulting services and system technology is compelling. Through our commitment, we create value for our customers, partners, employees and shareholders.

# REVIEW OF THE YEAR 2010

## First quarter



19 March 2010

*Dr. Murray Cameron, Chief Operating Officer of Phoenix Solar AG, is re-elected as a Board member of European Photovoltaic Industry Association (EPIA) for another four-year term of office.*

### ●● Annual Financial Statements 2009

After a difficult year for the solar industry, Phoenix Solar is one of the few German photovoltaic companies to achieve revenue growth (+ 17.5 percent to EUR 473.0 million) and close the year 2009 with a profit (EBIT: EUR 12.2 million).

### ●● Cuts in government promotion of solar energy

The reduction in feed-in tariffs for photovoltaic electricity, anchored in the German Renewable Energies Act (EEG), takes effect at the start of the year: government promotion of newly installed solar power plants in Germany falls by 9 percent. Other unscheduled curtailments follow on 1 July and 1 October.

### ●● Strategic human resources work

Together with a high-profile personnel consultancy company, Phoenix Solar sets up the Human Resources Solar Expert Panel. The aim is to establish the photovoltaic sector in the personnel market and to facilitate recruiting new staff.

### ●● "Haus der kleinen Forscher"

Phoenix Solar also in 2010 supports the "Haus der kleinen Forscher" initiative under the sponsorship of Gerda Hasselfeldt, Chairman of the CSU faction of the Bundestag, whose intention is to fan children's enthusiasm for natural sciences and technology.

## Second quarter



30 June 2010

*The first construction stage of the Senftenberg Solar Park, Phoenix Solar's largest photovoltaic power plant to date with a peak output totalling 18 MW, is connected to the grid.*

### ●● Grid connection of Moos Solar Park

Within the space of not even three months, Phoenix Solar builds one of Bavaria's largest solar parks with 15.8 MWp in Geroldshausen-Moos – using around 160,000 thin-film modules and 24 inverters.

### ●● Long-term partnership

Phoenix Solar takes over the delivery and assembly of two power plants with a peak power output totalling 7.8 MW for SWT Stadtwerke Trier in Fell and Bitburg - these are project number ten and eleven of a series over the course of the long-term cooperation.

### ●● Inauguration of a power plant in Singapore

Phoenix Solar Pte. Ltd. completes the biggest photovoltaic plant with 380 kWp built with thin-film modules in Singapore. The thin-film modules used in construction are the world's largest, with a surface area of 5.7 m<sup>2</sup>.

### ●● CIGS technology

Phoenix Solar AG signs a framework agreement with MiaSolé Inc. in the USA, a leading manufacturer of thin-film solar modules featuring the copper-indium-gallium-diselenide (CIGS) technology.

### ●● Investor-oriented dividend policy

On 16 June, the Annual General Meeting decides on the payment of a dividend of EUR 0.20 per share to the shareholders of Phoenix Solar AG. In addition, the Supervisory Board is newly elected.

### ●● Rooftop and roof-integrated mounting systems

Phoenix Solar presents TectoSun 3 and TectoSmart, its own mounting systems developed in-house, at the Intersolar Europe in Munich, the world's largest trade fair for the solar industry.



### Third quarter



1 September 2010

*The newly founded US subsidiary of Phoenix Solar AG takes up its operations in San Ramon near San Francisco in the high-growth solar market of California.*

#### ●● 3.5 MWp solar park

A Canadian energy group commissions Phoenix Solar as general contractor to build a turnkey ground-mounted photovoltaic power plant in Borgo Piave in the Latium region of Italy.

#### ●● First project in Slovakia

Phoenix Solar AG signs a contract with a German-Slovakian investor duo on the design and realisation of a solar park with a peak power output of 2.2 MW in Slovakia.

#### ●● Market entry into Malaysia

Phoenix Solar Pte. Ltd. in Singapore founds a subsidiary in Malaysia with headquarters in Kuala Lumpur. The company develops and builds turnkey ground-mounted and rooftop photovoltaic systems.

#### ●● 670,200 new shares

Phoenix Solar takes receipt of gross proceeds of around EUR 21 million from a successful capital increase on 13 July. The funds will be used to finance company growth and to forge ahead with the Group's ongoing internationalisation.

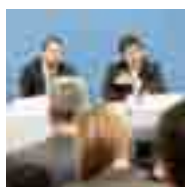
#### ●● Record results released

The second quarter marks the company's highest quarterly revenues and earnings since its foundation. With a module sales volume of almost 140 MWp, the Phoenix Solar Group generated total revenues of EUR 283.6 million and an EBIT of EUR 22.3 million.

#### ●● Fleet consumption of German companies

According to Deutsche Umwelthilfe, Phoenix Solar tops the list of 115 leading companies in terms of having a company vehicle fleet with the lowest CO<sub>2</sub> emissions. The fleet's emission averages 127 g CO<sub>2</sub>/km; the company car of CEO Dr. Andreas Hänel emits 129 g CO<sub>2</sub>/km.

### Fourth quarter



3 November 2010

*Phoenix Solar presents "The True Value of Photovoltaics for Germany" study on the adequate assessment of solar electricity and the economic benefit of photovoltaics at a press conference in Berlin.*

#### ●● Solar power plants for E.ON

Phoenix Solar AG builds two solar power plants totaling 8.9 MWp in Italy. Commissioning the design and construction of the photovoltaic power plants are two special-purpose companies of E.ON Climate & Renewables.

#### ●● Flagship project in Italy

Phoenix Solar wins the contract to build a solar carport of 5.9 MW in Piadena, Italy. This is one of the world's largest photovoltaic power plants on a carport.

#### ●● Start of construction in Greece

Phoenix Solar AG's Greek subsidiary signs its largest contract to date for the construction of a grid-connected solar power plant. Phoenix Solar E.P.E. designs and builds a solar power plant with a peak power of 2 MW in Central Greece.

#### ●● Participation in trade fair in the USA

Phoenix Solar presents itself to the American expert public for the first time and introduces its product and service portfolio at Solar Power International in Los Angeles, the largest photovoltaic trade fair in the USA.

#### ●● High level of productivity

In a study published in October entitled "Germany's most productive companies in 2010", Phoenix Solar ranks among the winners, coming second among the companies from the photovoltaic sector.

#### ●● Change at Executive Board level

Chief Technology Officer Manfred Bächler lays down his Board mandate for personal reasons with effect from 31 December 2010. The tasks under his responsibility are distributed among the other Executive Board members.

# PHOENIX SOLAR SHARE

## STOCK MARKET ENVIRONMENT

The development of international stock markets was very disparate in the year 2010. The DAX, Germany's leading index, delivered a plus of 16.1 percent, thus considerably outperforming other stock indices such as the Dow Jones or Euro Stoxx 50. After the spectacular increase in share prices in 2009, the start of 2010 initially saw a slight downtrend in the German stock market, followed by a broad-based rallying of share prices which, by the end of the year, generally emerged from trading at a premium. From the end of April onwards, the slew of debt crises of a number of euro-zone countries and a loosening of monetary policy in the USA determined events on the stock markets. Prices trended sideways in the period between spring and autumn 2010. Relief at Germany's strong economy, the low level of interest rates and China's economic upswing heralded the change, with anxiety about another recession in the US and alarming reports about the public debt of countries in southern Europe and Ireland. At the end of September, the DAX had not moved from the level it recorded at the start of the year. Very good company results, the decision of the US Federal Reserve to keep the key rates between 0 and 0.25 percent and the unexpectedly strong recovery in the German economy prompted a year-end rally in share prices.

At the end of the reporting period, the DAX emerged from trading at 6,914 points. Compared with its status at the end of 2009 (5,957 points), the leading index had firmed up by 16.1 percent above its starting point.

The TecDAX, which comprises the 30 largest technology companies below the DAX, including Phoenix Solar AG and six other companies in the solar industry, closed the year at 851 points as compared with 818 a year ago. This is equivalent to a slight increase of 4 percent. The MDAX (+35 percent) and the SDAX (+46 percent) performed considerably better.

All solar equities in the TecDAX were on the losing side in the selection index at year-end 2010. In the statistics compiled at the end of the year, the share of Phoenix Solar AG came 26th in the ranking of 30 equities in terms of its share price performance, down from 11th place in 2009. Despite a slight recovery towards the end of the year, the loss in value sustained by the equities of individual solar companies over the course of the year partly exceeded 50 percent and, in one case, was even more than 70 percent.

## SHARE PRICE PERFORMANCE

Following a strong year in the stock markets in 2009, the price of the Phoenix SonnenAktie® (share of Phoenix Solar AG) came under considerable selling pressure in 2010. The closing price on the last trading day of the reporting year stood at EUR 23.70 (previous year: EUR 42.23), which is a reduction of 44 percent (previous year: +68 percent). Having peaked at EUR 45.00 on the first day of trading (4 January), the share price dipped to its lowest point for the year of EUR 20.90 on 7 December.

The share of Phoenix Solar AG came under a great deal of pressure in the first quarter of 2010 from discussions about an unscheduled curtailment of the government promotion of solar energy. Following significant price markdowns in January and February, the equity rallied in March from its low levels in previous months upon the release of the preliminary figures for 2009. The share price closed at EUR 31.49 on the last trading day of the first quarter, thus shedding 25.4 percent of its value in the first three months of 2010.

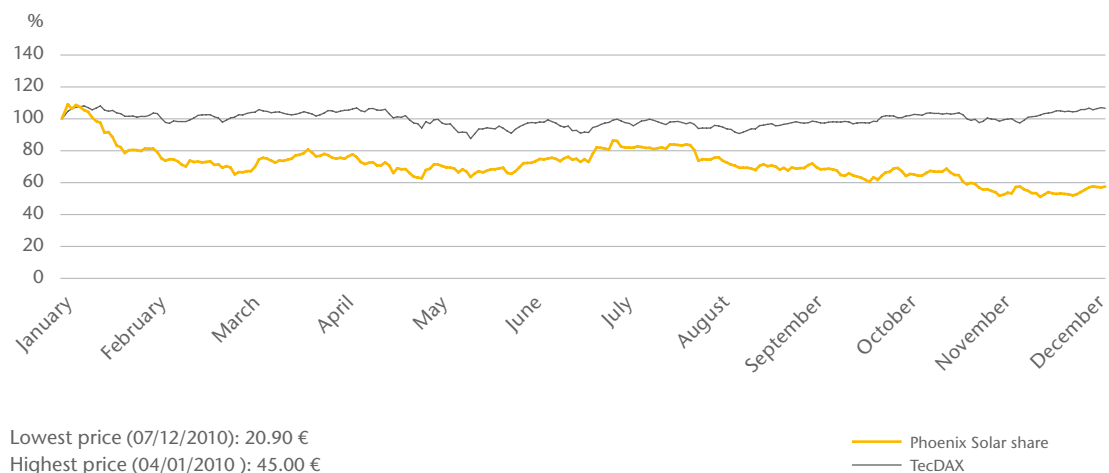
This downtrend persisted in the second quarter. Although there was another quarter-on-quarter loss of 2.4 percent recorded by the end of the period, a trend reversal had nonetheless set in by the month of June. On the last day of trading in the second quarter, the share closed at EUR 30.74. Following a price

markdown in the double-digit range in April, the equity firmed up in May in response to the positive quarterly figures. In June, the share entered a clear uptrend. During this period, a final regulation on the amendment to the German Renewable Energies Act (EEG) appeared to have been found and the Inter-solar trade fair took place with its optimistic appraisal of the market.

In the third quarter, the share of Phoenix Solar AG sustained another loss of 14.5 percent. Having gained 8.7 percent in July from a month-on-month perspective, the share price slipped again significantly in the months of August and September. On the last trading day of the third quarter, the share closed at a price of EUR 26.28. Topics which dominated were the modest outlook for the third quarter as part of the publication of the half-yearly 2010 figures, the anticipated slump in demand in Germany and negative analyst reports on the photovoltaic sector.

In the final quarter, the value of the share decreased by 9.8 percent. The last quarter of 2010 came under the influence of ongoing uncertainty about expectations for the German and global solar market in 2011. A month-on-month increase of 6.9 percent, achieved through positive performance over the course of October, gave way to tumbling prices in November (-15.2 percent). The equity stabilised in December and closed the trading year 2010 on 30 December at EUR 23.70.

Price performance of the Phoenix Solar share versus the TecDAX (01/01–31/12/2010)



The market capitalisation of Phoenix Solar AG came to EUR 174.7 million on 31 December 2010 (31 December 2009: EUR 283.0 million). The trading volume of the share on the Xetra exchange stood at 13.4 million units, unchanged from the year-earlier figure, and turnover over the reporting period posted EUR 392.4 million compared with EUR 470.9 a year earlier.

At the end of the financial year 2010, Phoenix Solar came 31st in the ranking of the 30 equities belonging to the TecDAX measured by the stock exchange criterion of market capitalisation. At the end of 2009, the company still held 19th place. Measured by trading volume, the company took 19th place compared with 15th place at the end of the reporting year 2009.

## ANNUAL GENERAL MEETING

The regular Annual General Meeting 2010, held on 16 June in Fuerstenfeldbruck with an attendance which made up 36.71 percent of the voting share capital of EUR 6,702,500, approved all items on the agenda with majorities achieved in the voting process of between 75.14 percent and 99.99 percent. J. Michael Fischl, Chairman of the Supervisory Board to date, and Supervisory Board members Dr. Patrick Schweisthal, Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser were confirmed for a further term of office. Dr. Torsten Hass and Oliver Gosemann were newly elected as members of the Supervisory Board. In the Supervisory Board meeting following on from the Annual General Meeting, J. Michael Fischl was confirmed in his office of Chairman of the Supervisory Board. Dr. Patrick Schweisthal was elected as Vice Chairman for the first time.

## DIVIDEND DISTRIBUTION

We pursue a shareholder-oriented dividend policy which accords with company growth and the respective business situation. The company paid dividend for the first time in 2007 for the previous financial year. At the Annual General Meeting 2010, our shareholders approved the distribution of a dividend of EUR 0.20 per share (previous year: EUR 0.30) for the financial year 2009. Dividend was disbursed on 17 June 2010 via our paying and depositary agent. With a gross dividend distribution of EUR 1.3 million, the payout ratio measured against the annual net income of Phoenix Solar AG (pursuant to the German Commercial Code (HGB)) comes to 10.08 percent. The Executive Board and the Supervisory Board plan to propose payment of a dividend of EUR 0.35 per share for the financial year 2010 to the Annual General Meeting of Shareholders on 14 July 2011.

Dividend

Financial year	Disbursement date	Dividend per share (€)	Gross dividend distribution (k€)	Number of shares
2010*	15/07/2011	0.35	2,581	7,372,700
2009	17/06/2010	0.20	1,340	6,700,700
2008	20/05/2009	0.30	2,005	6,648,500
2007	05/06/2008	0.20	1,337	6,684,500
2006	29/05/2007	0.10	608	6,077,000

\* Proposal for dividend distribution to be presented to the Annual General Meeting 2011

## CAPITAL MEASURES

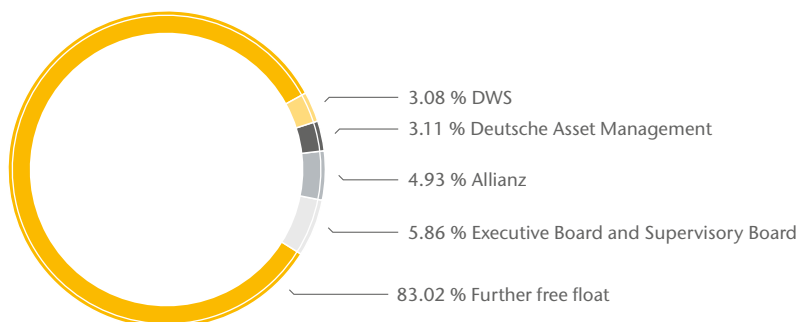
Phoenix Solar AG successfully carried out a capital increase on 13 July 2010, with partial utilisation of the Authorised Capital 2010. The subscription rights of shareholders were excluded. We issued a total of 670,200 new no-par value bearer shares at a placement price of EUR 32.00. The company's share capital has therefore risen from EUR 6,702,500 to EUR 7,372,700, and the total number of voting rights now comes to 7,372,700 units.

## SHAREHOLDER STRUCTURE

In the financial year 2010, there were a number of notifications submitted pursuant to Section 21 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 total number of voting rights had risen to 7,372,700 by the end of December 2010 through the capital increase in July and through the exercising of 1,800 share options as part of the Share Option Plan 2006.

The shareholder structure as per 31 December 2010, and as known to Phoenix Solar AG, is shown below:

Shareholder structure as per 31/12/2010



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

According to the definition of Deutsche Börse AG, 100 percent of the shares are in free float.

## INVESTOR RELATIONS

The aim of our investor relations activities is to foster transparent communication between the company and the capital market. We maintain constant dialogue with all stakeholders and have stepped up the exchange of information with market participants, extended the catalogue of measures and built up the requisite human and financial resources. The key issues covered by our capital market communication are the company's financial position, current market developments in the photovoltaic industry, as well as the strategy and the outlook of the Group. In the financial year ended, our investor relations work concentrated first and foremost on developments relating to the future government promotion of solar energy on a global scale, the impact of the amendment to the German Renewable Energies Act (EEG) on the business of Phoenix Solar AG, its market entry into the USA and market expectations in 2011. In addition, we presented the study on "The True Value of Photovoltaics for Germany" and discussed its contents with politicians and the capital market.

We update and develop the range of information on the website [www.phoenixsolar.com/InvestorRelations](http://www.phoenixsolar.com/InvestorRelations) on a regular basis. Along with general information on the share, contents include a list of current analyst recommendations, the webcasts of the most recent telephone conferences and details on Corporate Governance within the Phoenix Solar Group.

Phoenix Solar AG took part in nine capital market conferences in Germany and abroad in the financial year 2010. In February, we attended the HSBC Small/Mid Cap SRI Conference organised by HSBC Trinkaus & Burkhardt, and in March the Growth & Responsibility Conference sponsored by Commerzbank, both in Frankfurt am Main. The Executive Board presented the Group at the Small & Mid Cap Symposium organised by Goldman Sachs in London in May and at the Intersolar Investor Conference arranged by MainFirst Bank in Munich in June. The M:access analyst conference organised by Börse München (Munich Stock Exchange) followed in July and the German Investment Conference of UniCredit was held in Munich in September. We were represented at the UBS Global Solar One-on-One

Conference and the Jefferies Solar Symposium in Los Angeles in October. Moreover, the company was presented at the Equity Capital Forum of Deutsche Börse AG in Frankfurt am Main in November.

Together with a number of brokers, we made contact with investors and buy-side analysts and stepped up the exchange of information within the context of nine road shows in total in the financial year. A road show organised in Germany took place in Frankfurt am Main in 2010. In addition, management and the Investor Relations department visited the international financial centres of Brussels, Geneva, London, Luxembourg and Zurich in Europe and New York in the USA.

Apart from conferences and road shows, there were many group and one-to-one discussions held at company headquarters in Sulzemoos. A large number of financial analysts and institutional investors, as well as representatives of the business community and financial press, visited Phoenix Solar AG and subsequently took a guided tour of a photovoltaic power plant. We were also available to exchange information in regular telephone conferences. Moreover, we conducted numerous discussions with private shareholders and responded to their enquiries.

The Intersolar trade fair, held in Munich in June, also attracted many international investors and analysts who made appointments for meetings at our trade fair stand. More meetings took place at the 25th European Photovoltaic Solar Energy Conference and Exhibition (EU PVSEC) in Valencia in September. A month later we took part in Solar Power International, the leading US trade fair in Los Angeles, and had meetings with many different market participants. The Executive Board presented the company at the 11th Forum Solarpraxis in Berlin and were available to meet with interested parties.

The company's Financial Calendar 2011 has been printed on the inside cover of this Annual Report and is regularly updated on the website of Phoenix Solar AG under the Investor Relations heading.

#### ANALYST COVERAGE

As per 31 December 2010, 24 banks and investment firms were regularly covering the Phoenix Solar share. Ardour Capital based in New York, BayernLB in Munich, Close Brothers Seydler and DZ BANK in Frankfurt am Main, along with the major bank UBS based in Zurich, began analyst coverage of Phoenix Solar AG. Of the banks, 14 are headquartered in Germany and ten in the rest of Europe and in America. At the end of the financial year, 17 analysts had rated the share with buy, six with hold and one with sell. The average target share price of all financial analysts stood at EUR 35.77. An updated list of analysts' reviews is posted on our website under the Investor Relations heading.

## Key share data

		Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	2009
Number of shares <sup>1</sup>	units	6,700,700	6,702,500	7,372,700	7,372,700	7,372,700	6,700,700
Market capitalisation <sup>1</sup>	€	211,005,043	206,034,850	193,754,556	174,732,990	174,732,990	282,970,561
Closing price (Xetra)	€	31.49	30.74	26.28	23.70	23.70	42.23
Highest price	€	45.00	32.02	35.53	28.91	45.00	43.74
Lowest price	€	26.65	25.64	26.28	20.90	20.90	23.91
Trading volume	units	4,301,387	3,170,972	2,819,405	3,066,188	13,357,952	13,367,964
	€	140,053,107	91,439,687	88,144,747	72,765,171	392,402,712	470,935,008
Dividend	€	-	-	-	-	0.35 <sup>2</sup>	0.20
Dividend yield	%	-	-	-	-	1.48 <sup>2</sup>	0.47
	€	0.42 <sup>3</sup>	2.38 <sup>3</sup>	0.31 <sup>3</sup>	0.43 <sup>3</sup>	3.44	1.28 <sup>3</sup>
Earnings per share	€	0.42 <sup>4</sup>	2.38 <sup>4</sup>	0.31 <sup>4</sup>	0.43 <sup>4</sup>	3.44	1.28 <sup>3</sup>

<sup>1</sup> At the end of the period

<sup>2</sup> Dividend distribution proposal

<sup>3</sup> Basic earnings per share

<sup>4</sup> Diluted earnings per share

## Share fact sheet

International Securities Identification Number (ISIN)	DE000A0BVU93
Securities code number (Sec. code no.)	A0BVU9
Ticker symbol	PS4
Class of shares	No-par value bearer shares
Number of shares as per 31/12/2010	7,372,700 units
Share capital as per 31/12/2010	€ 7,372,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	Xetra, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin, Düsseldorf, Hamburg, Hannover
Sector/sub-sector	Industrial Goods/Renewable Energies
Indices	TecDAX, ÖkoDAX, Midcap Market, HDAX, Technology All Share, Prime All Share, CDAX, DAX International 100, DAXglobal® Sarasin Sustainability Germany, various sector and sub-sector indices of Deutsche Börse AG; Photovoltaic Global 30 Index, S&P Global Clean Energy
End of the financial year	31 December
Accounting standards	IFRS
Commencement of stock market listing	18/11/2004
Designated Sponsor	HSBC Trinkaus & Burkhardt AG





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560,000 hl



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*Vineyard near Wuerzburg, Lower Franconia, Germany*

The power of the sun as a guarantee of growth: Franconia's vintners owe their annual yield of up to 560,000 hectolitre of choice wine first and foremost to the continental climate with dry, warm summers. To use this potential for generating electricity as well, Phoenix Solar built three ground-mounted plants, each with a peak power of more than 10 MW in 2010, in Germany.

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Germany is the world's photovoltaic champion. In only two years, installed capacity in this country has more than doubled to around 17 GWp. In future, we will be focusing especially on the potential of rooftop plants and services for our sales partners.

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Demand for solar power plants and systems was driven primarily in 2010 by upfront buying effects and the additional multiple lowering of EEG feed-in tariffs. We estimate that the German market has reached its maximum capacity and will decline in the years ahead. We nonetheless see good opportunities for expanding photovoltaics in Germany. The fact is that 234,400 hectares of surface areas on buildings are suitable for solar utilisation. Up until now only around 2.5 percent of this potential has been used – and if the true value of photovoltaics is recognised, photovoltaics will be a competitive alternative to electricity from power plants run on gas and hard coal in five to eight years' time.

**18 MW**


peak power is the largest photovoltaic plant built by Phoenix Solar to date – the Senftenberg Solar Park in Brandenburg.

#### MOOS SOLAR PARK – ONE OF THE LARGEST IN SOUTHERN GERMANY

Within the space of not even three months, one of Bavaria's largest solar parks was built using around 160,000 thin-film modules and 24 inverters on a surface area of around 64 hectares: the 15.8 MWp solar park in Geroldshausen-Moos in the district of Wuerzburg, Franconia. The plant has been generating almost 17 million kWh of electricity a year since June 2010. It contributes more than 600 tonnes a year to CO<sub>2</sub> savings – and is a milestone for Phoenix Solar's power plant business.

#### SENFTENBERG SOLAR PARK – A SYMBOL OF THE ENERGY SEA CHANGE

The municipality of Senftenberg in Brandenburg has led the way in showing what can be done with a former brown coal open-cast mining area. In 2010, we realised our largest power plant to date, built with 240,000 solar modules on a surface

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**Moos Solar Park is currently one of the largest in Bavaria and supplies more than 4,200 families with green electricity. It has enabled us to make an active contribution to climate protection – also thanks to the professional planning and realisation of the project by Phoenix Solar AG.**



Maximum yield security for the operator: Phoenix Solar has also taken over the operation and maintenance of the Moos Solar Park.

area of approximately 63 hectares – and a peak power of 18 MW. The solar park is convincing proof of how used sites can be put to good use for the environment and society. This can also be said of the 10 MWp solar park in Preschen near Cottbus which is built on a conversion site formerly used as a military airbase since the end of 2010.

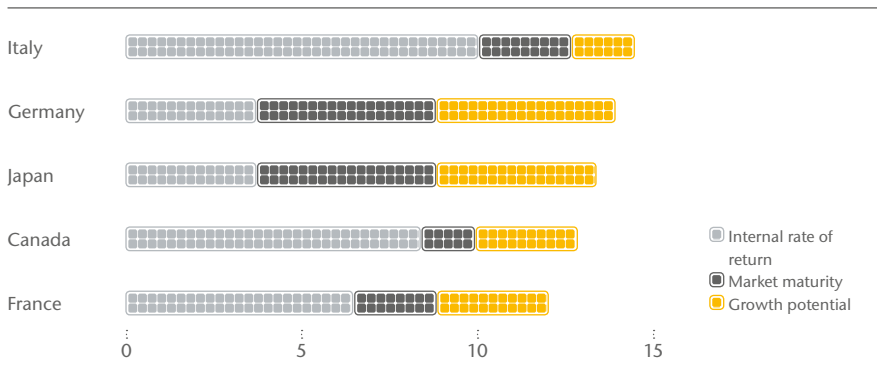
**PROTECTING THE CLIMATE, GENERATING ENERGY, ESTABLISHING PARTNERSHIPS**

The investment company KGAL, having signed a framework agreement back in 2007 with Phoenix Solar which was extended in 2009, assumed the role of investor and principal for the Moos Solar Park. The two companies are planning to realise solar projects with a minimum investment volume of EUR 525 million in Germany and in other European countries in the period from 2009 to 2012.

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Experienced investors with a sound financing concept as a partner, Phoenix Solar as project developer and general contractor, and a municipality in which both politicians and residents are all pulling in the same direction all adds up to an ideal constellation for shaping the sustainable supply of energy at a regional level.

Country attractiveness of rooftop photovoltaic systems 2011 in scores



Source: Rabobank and Bank Sarasin, November 2010

# REPORT OF THE SUPERVISORY BOARD

The Supervisory Board herewith presents its report to the Annual General Meeting of Shareholders, in particular on its examination of the separate financial statements, drawn up in accordance with the provisions of the German Commercial Code (HGB), and the Management Report on the company as per 31 December 2010, and the consolidated financial statements and Management Report on the Group, as well as on its supervision of management during the financial year and on its statement on the report submitted by the independent auditor, together with the proposal of the Executive Board on the unappropriated retained earnings.

## GENERAL INFORMATION

In the reporting year, the Supervisory Board held twelve regular meetings, including two closed-door sessions. 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 Executive Board did not participate in the passing of resolutions conducted via telephone and in the five meetings held to decide on personnel-related matters.

Following careful examination and discussion, the Supervisory Board gave its approval to the resolutions put forward by the Executive Board.

The Supervisory Board comprises six members. The members J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle, Dr. Patrick Schweisthal and Prof. Dr. Thomas Zinser were re-elected in the Annual General Meeting of Shareholders held on 16 June 2010. Members Ulrich Fröhner and Ulrich Th. Hirsch retired from the Supervisory Board at the end of the Annual General Meeting of Shareholders on 16 June 2010. Oliver Gosemann and Dr. Torsten Hass have belonged to the Supervisory Board since the end of the Annual General Meeting of Shareholders on 16 June 2010. Dr. Patrick Schweisthal is successor to Ulrich Fröhner as Vice Chairman of the Supervisory Board.

In order to carry out its tasks efficiently, the Supervisory Board formed three committees of its members, namely the Audit Committee, the Personnel Committee and the Nomination Committee. These committees are tasked with preparing certain decisions for resolution and topics which are to be addressed by the Supervisory Board. As part of the decision-making powers entrusted to them within the scope permitted under the law, the committees made their own decisions. The chairmen reported on the work carried out in their committees at next respective meeting of the Supervisory Board.

The Audit Committee held six meetings, three of which in the presence of the independent auditor, established key audit areas, discussed the interim reports and deliberated on the financial statements and management reports on the company and the Group. The Chief Financial Officer took part in all meetings. Moreover, the committee concerned itself with issues relating to the accounting and risk management and gained an insight into the activities of the departments in the area of finance. In addition, it took receipt of and discussed the reports on the audit activities of Internal Audit. Moreover, the Audit Committee initiated a tender procedure for selecting the external auditor for the financial year 2011. The Audit Committee members are Prof. Dr. Thomas Zinser (Chairman), Oliver Gosemann (since 16 June 2010), Ulrich Th. Hirsch (until 16 June 2010) and Dr. Patrick Schweisthal.

The Personnel Committee is made up of the following members: J. Michael Fischl (Chairman), Ulrich Fröhner (until 16 June 2010), Dr. Torsten Hass (since 16 June 2010) and Prof. Dr. Klaus Höfle. It met three times in the period under review and focused on issues pertaining to the goals agreed and reviewing the extent to which goals were achieved by the members of the Executive Board. In addition, questions relating to the reallocation of the scope of tasks of individual Executive Board members in preparation for contract renewals and in connection with the implementation of the German Act on the Appropriateness of Executive Remuneration (VorstAG) were also discussed. To this end, an external, independent remuneration consultant was involved in developing a new multi-period, index-based remuneration model to reflect a quantitative, performance-based remuneration component which was agreed with the Executive Board members. The committee's work was also determined by Executive Board member Manfred Bächler's wish to terminate the employment contract. Mr. Bächler withdrew from the company's Executive Board at the end of the financial year 2010.

The Nomination Committee is made up of the members J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. The committee prepared the Supervisory Board's proposal for new elections to the Supervisory Board in the Annual General Meeting of Shareholders 2010. Moreover, it addressed the issues arising from its decisions in the year 2009 pertaining to the concept of a proposal to be put to the Annual General Meeting of Shareholders for replacing members, the issue of diversity and the long-term planning for appointing members to the Supervisory Board in the context of decisions made by way of telephone in preparation for the regular meetings of the Supervisory Board.

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 5 December 2010 pursuant to Section 111 para. 2, sentence 3 of the German Stock Corporation Act (AktG) to audit the separate financial statements and the management report on the company as well as the consolidated financial statements and the management report on the Group drawn up in accordance with Section 315a of the German Commercial Code (HGB) and based on the standards set out under IFRS/IAS. The independent auditor submitted an Auditor's Independence Declaration to the Audit Committee on 26 March 2010 pursuant to Code Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

The Supervisory Board agreed the Corporate Governance Report in accordance with the recommendations set out under the German Corporate Governance Code in the version dated 26 May 2010 and the Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) with the Executive Board on 26 January 2011. The Declaration of Conformity was published on 18 March 2011 in accordance with the statutory provisions. The complete Corporate Governance Report, together with the Declaration of Conformity, is part of the Annual Report.

The Supervisory Board reviews the efficiency of its work on an ongoing basis. Key areas are the organisation and sequence of meetings, the optimisation of reporting by the Executive Board and resolutions passed on agenda items, as well as risk management. Over the course of the year, the members of the Supervisory Board took part in external continuous professional development in order to build on their expert qualifications.



### REPORT ON THE ACTIVITIES ASSOCIATED WITH THE SUPERVISION OF THE EXECUTIVE BOARD BY THE SUPERVISORY BOARD DURING THE COURSE OF THE FINANCIAL YEAR

The Supervisory Board met regularly, discussed the items on the agenda in depth and analysed the development of the company and situation of the sector. The Supervisory Board consulted regularly with the Executive Board on the management of the company and supervised the latter's activities. The supervision of senior management was made primarily by taking cognizance of regular written and oral reports by the Executive Board and the discussion of these reports. The Executive Board reported in a timely fashion on the course of business, the strategic development and the current situation of the company and the Group. In addition to the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular contact with the Executive Board and kept himself informed about the actual business situation and individual transactions. The Supervisory Board was therefore involved in all decisions of fundamental importance for the company and the Group.

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

- receipt and discussion of the reports prepared by the Executive Board 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),
- assessment of the impact of political discussions on lowering feed-in tariffs in the key regions, such as Germany, Southern and South Eastern Europe and the USA, in terms of the business policy of the company,
- analysis of alternative or additional lines of business to reduce the risk of strong dependence on the process of political decision-making,
- ongoing development of the corporate strategy and reconciliation of the impact on corporate planning as well as on the organisation structure and organisation of workflows,
- financing of the Group and the subsidiaries,
- monitoring the development 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,
- receipt of reporting in the context of the compliance management system,
- monitoring of the company's stock market value,
- 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,
- addressing of the content of German Corporate Governance Code.

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

## REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED 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 receipt of the following on 25 March 2011 in good time before the meeting of the Supervisory Board:

- the annual financial statements and the proposal for the appropriation of profit of the Executive Board for the financial year 2010,
- the report by the Executive Board on the situation of the company in 2010,
- the consolidated financial statements for the financial year 2010 pursuant to the standards laid down under IFRS/IAS,
- the report by the Executive Board on the situation of the Group in 2010.

The separate financial statements and the Management Report on the company, and the consolidated financial statements and the Management Report on the Group 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.

The Audit Committee examined the annual financial statements and the management reports and discussed them with the Chief Financial Officer and the independent auditor. Similarly, the Supervisory Board examined the financial statements and management reports in its financial statements meeting on 13 April 2011, in which the Executive Board also participated and explained the financial statements it had prepared and the risk management system, and consulted with the independent auditors who reported on the main findings, the key areas and scope of their audit and were available to give additional information. No significant weak points were ascertained in the internal control and risk management system in relation to the accounting process.

The Supervisory Board is satisfied that

- all the components of financial accounting are systematically correct in as much as they form the basis for the annual financial statements;
- the methods for achieving 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 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 declared its agreement with the findings of the audit conducted by the independent auditor. Following the concluding results of its audit, the Supervisory Board ascertained that there were no objections to be raised.

The Supervisory Board has ratified the financial statements of the company prepared by the Executive Board, which are thereby adopted. The Supervisory Board has also ratified the consolidated financial statements. The proposal of the Executive Board to use unappropriated retained earnings to pay a dividend of EUR 0.35 per share, which comes to a total of EUR 2,580,445.00 on the dividend-bearing share capital of EUR 7,372,700.00, to the shareholders and to carry forward the balance to new account was examined carefully and approved by the Supervisory Board.

In its meeting on 13 April 2011, and following consultation with the independent auditor pursuant to Section 171 para. 2 of the 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 2010 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 2010 were ratified by the Supervisory Board in its meeting on 13 April 2011, and are thereby adopted.*

*Moreover, the Supervisory Board approves the proposal of the Executive Board to put a resolution to the Annual General Meeting of Shareholders for payment of dividend from the unappropriated retained earnings of EUR 64,046,745.15 in an amount of EUR 0.35 per share and carry forward the remaining balance of EUR 61,466,300.15 to new account.*

*Furthermore, the Supervisory Board ratified the consolidated financial statements as at 31 December 2010 and the Management Report on the Group for the financial year 2010.*

Sulzemoos, 13 April 2011



**J. Michael Fischl**  
(Chairman of the Supervisory Board)



# CORPORATE GOVERNANCE REPORT

Trust is fostered through openness. Phoenix Solar AG stands for good and responsible corporate governance aligned to creating sustainable value added. We view open dialogue with employees, business partners, customers, shareholders, analysts and the public as an important prerequisite for the long-term success of our company. The Executive Board and the Supervisory Board are committed to upholding the principles set out under the German Corporate Governance Code (GCGC) and have geared their actions towards securing the company as a going concern and raising enterprise value on a sustainable basis. Apart from a few exceptions, Phoenix Solar AG has adopted the recommendations and suggestions of the GCGC. This Corporate Governance Report, prepared by the Executive Board and the Supervisory Board in accordance with Item 3.10 of the Code in the version valid since May 2010, elucidates the main corporate governance components of the company and explains any departures from the recommendations of the Code. The report also includes the statement on corporate governance required under Section 289a of the German Commercial Code.

## AMENDMENTS TO THE GERMAN CORPORATE GOVERNANCE CODE

The version dated 18 June 2009 of the GCGC has been revised by the Government Commission of the German Corporate Governance Code in a number of instances and has been reformulated in the new version dated 26 May 2010. In the new version of the Code, the Commission places particular emphasis on recommendations for more diversity in the filling of management, Executive Board and Supervisory Board positions as well as focusing on the qualifications of Supervisory Board members. The measures are intended to set in place the prerequisites for good corporate governance geared to sustainability.

With a few exceptions, the main amendments and recommendations have been implemented by Phoenix Solar. Amendments which affect Phoenix Solar are explained briefly in the following, and deviations from the Code described and substantiated in the Declaration of Conformity.

The regular 2011 General Meeting of Shareholders is to endorse the system of remunerating members of the Executive Board. There are currently no plans to introduce postal voting or transmit the Annual General Meeting using electric communication media (e.g. Internet). In these instances, Phoenix Solar will first observe the acceptance in the capital market (in accordance with Code Items 2.2.1, 2.3.1, 2.3.3 and 2.3.4).

When taking out a Directors & Officers (D&O) insurance for the Executive Board and the Supervisory Board, a deductible of a minimum 10 percent of the loss up to an amount of at least one and a half times the fixed annual remuneration of the Executive Board member and an appropriate deductible for Supervisory Board members is to be agreed. This recommendation was implemented at Phoenix Solar AG upon the entering into force of the statutory obligation on 1 July 2010 (in accordance with Code Item 3.8).

The remuneration of Executive Board members should appropriately reflect individual performance and the financial position, success and future prospects of the company. The appropriateness of remuneration is reviewed regularly once a year, starting in 2010. A comparison will be made both with the remuneration structure in the company as well as in a peer comparison with other companies in the solar industry. There are currently no plans to involve an external independent expert (in accordance with Code Item 4.2.2).

An index-based remuneration system for the quantitative part of the Executive Board bonus was introduced in the financial year 2010. The quantitative part of the bonus is based on a multi-year assessment. Moreover, a cap has been agreed for this part of the performance-based remuneration. Under this system, the performance of Phoenix Solar AG is compared with a select group of peer competitors. Chang-

ing the quantitative goals at a subsequent date is excluded; in respect of qualitative performance targets, significant changes in the environment may allow this in exceptional cases. The Share Option Plan 2006, introduced as a variable remuneration component and which expires in mid-2011, is explained in detail in the Annual Report. A successor programme is to be developed together with a specialised consultant in 2011 and presented to the 2011 Annual General Meeting of Shareholders for its decision (in accordance with Code Item 4.2.3).

Phoenix Solar AG takes account of the precept of diversity in the composition of the Executive Board, particularly in respect of appropriate consideration of women. In 2010, the ratio stood at 20 percent. The reduction in the number of persons on the Executive Board from five to four on 1 January 2011 now brings the ratio to 25 percent. Together with the Executive Board, the Supervisory Board will introduce long-term succession planning, taking into account the individual circumstances. The respective pre-conditions are reviewed by the Supervisory Board once a year. An age limit of 67 years has been defined for Executive Board members (in accordance with Code Item 5.1.2).

Since the 2010 Annual General Meeting of Shareholders, elections to the Supervisory Board have been carried out by way of votes cast on an individual basis. Candidates put forward for the Supervisory Board chair are announced to the shareholders (in accordance with Code Item 5.4.3).

As yet, no member of the Executive Board of Phoenix Solar AG has switched to the Supervisory Board, and no Executive Board member of Phoenix Solar AG has accepted more than three Supervisory Board mandates in other listed companies (in accordance with Code Items 5.4.4 and 5.4.5).

The deadline for making interim reports publicly accessible within 45 days is complied with. The release of the consolidated financial statements, however, is not made within 90 days due to the high quality standards set by the company (in accordance with Code Item 7.1.2).

#### DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As a company with increasingly international operations, Phoenix Solar AG is giving greater attention to the topic of diversity. We view diversity and equal opportunities as an important principle in our working environment. At present, the majority of Phoenix Solar's employees come from Germany as the company's home market. However, the proportion of other nationalities is on the rise. In 2010, 12 percent of the workforce were of non-German extraction. Women make up 33 percent of the workforce. At year-end 2010, around 20 percent of managerial positions (second and third management level) at Phoenix Solar were filled by women. The average employee age stood at 37 years.

#### EXPERTISE OF THE SUPERVISORY BOARD

Based on an extensive review, the Supervisory Board analyses the expert and personal prerequisites for the fulfilling of its tasks once a year in a closed-door session. These prerequisites are then compared in the form of a SWOT (strengths, weaknesses, opportunities and threats) with the potential represented by the Board. The outcome is then taken as a basis for continuous professional development of the individual persons and planning for future vacancies.

The manifold responsibilities and tasks of the Supervisory Board (e.g. in the areas of finance, law, knowledge of the photovoltaic market and expertise in photovoltaics, management of international companies, company and project finance, personnel) are to be reflected by the key focus of its various members' expertise. Furthermore, along with the professional qualifications, the interpersonal competence of the respective individual is to be taken account of in the selection of members.

## GOALS FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Phoenix Solar AG comprises a total of six members elected by the Annual General Meeting of Shareholders. In Oliver Gosemann, the Supervisory Board has a member with extensive entrepreneurial and international experience. The criterion of internationality is thus fulfilled. Prof. Dr. Thomas Zinser has expertise in the areas of accounting and auditing. The Supervisory Board is currently exclusively composed of independent members. These members do not maintain business or personal relations with the company or its Executive Board which could constitute a conflict of interest, nor do they exercise any consultancy or supervisory function with customers, suppliers, lenders or other business partners of the company. There are currently no women on the Supervisory Board.

Given the special challenges of Phoenix Solar AG' business, the share of international business and the size of the company and the Group, the Supervisory Board defined the following goals by way of resolution dated 26 January 2011 in respect of its future composition:

- In the future as well, at least one member of the Supervisory Board will in particular embody the criterion of internationality, whether by being a foreign national and/or by having extensive international experience.
- In future, at least two independent members, i.e. 33 percent, should be on the Supervisory Board.
- Given the proportion of women in the workforce of Phoenix Solar AG, which came to 33 percent in the financial year ended, the Supervisory Board considers the membership of two women on the Supervisory Board to be appropriate. Achieving this proportion has been envisaged for the medium term.
- The maximum age for members of the Supervisory Board has been set at 67 years.

In future proposals for election, the Supervisory Board will take into account that the goals for the composition of the Supervisory Board in respect of female Supervisory Board members have not yet been fulfilled. Otherwise all other goals have already been achieved.

## RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Entrepreneurial activity harbours risks. However, opportunities missed may also incur risk. Hence, it is our responsibility to optimise the opportunities for the company while reducing the risks. Phoenix Solar AG has established risk management as a permanent process which encompasses all areas of the company and forms the basis for the identification, assessment, management and control of the risks which arise. 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 the company.

Phoenix Solar AG has a clear management and corporate structure in which the key cross-departmental functions are managed centrally. In respect of finance and financial reporting, integrity and responsibility is ensured through compliance with the prevailing accounting guidelines and other guidelines relevant for the accounting process. These are binding on all those involved in the process.

In terms of the accounting process, the internal control and risk management system ensures that entrepreneurial transactions are properly captured and accounted for and correctly mapped in the accounting system. Suitable staffing, the use of appropriate software, clear statutory provisions and internal instructions and guidelines form the basis for a due and proper, uniform and continuous accounting process.

## SHAREHOLDINGS AND DIRECTORS' DEALINGS

The securities transactions of the Executive Board 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](http://www.phoenixsolar.com) under the heading Investor Relations and can be viewed for the space of one month. The insider guidelines of Phoenix Solar AG provide 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, consultants for instance, are also notified of this blackout period.

In the financial year 2010, several individual non-reportable and reportable transactions within the meaning of Section 15a of the German Securities Trading Act were carried out by the Executive Board and the Supervisory Board. Non-reportable transactions under Section 15a of the German Securities Trading Act are constituted by the purchase or sale of shares in Phoenix Solar AG as long as transactions initiated by individual members of the Executive Board or the Supervisory Board or their related parties do not reach or exceed an amount of EUR 5,000. The proportion of shares held by the Executive Board and the Supervisory Board has also fallen proportionately owing to the increase in share capital from 6,702,500 to 7,372,700. Moreover, one member of the Supervisory Board who held a larger block of shares has withdrawn. The table below gives an overview of shareholdings (direct and indirect) of the Executive Board in the shares issued by the company:

	Units	Holding %
Dr. Andreas Hänel	227,200 (227,200)	3.08 (3.39)
Manfred Bächler	132,530 (183,530)	1.80 (2.75)
Dr. Murray Cameron	69,750 (69,750)	0.95 (1.04)
Sabine Kauper	190 (190)	<0.01 (<0.01)
Ulrich Reidenbach	216 (160)	<0.01 (<0.01)
<b>Executive Board, total</b>	<b>429,886</b> <b>(469,886)</b>	<b>5.83</b> <b>(7.01)</b>

As per 31 December 2010; 2009 figures in brackets

At Supervisory Board level, Mr. Oliver Gosemann (300 shares), Dr. Torsten Hass (400 shares) and Prof. Dr. Klaus Höfle (1,575 units) hold shares in the company. As per 31 December 2010, the Supervisory Board therefore held 0.03 percent (previous year: 0.30 percent) in the share capital of the company. The members of both executive and supervisory bodies together hold shares amounting to 5.86 percent in the company (previous year: 7.31 percent).

## REMUNERATION REPORT

The details of the remuneration system of the Executive Board and the Supervisory Board, as well as an itemised listing of remuneration, are included in Section 1.1.4 of the Management Report. Information on commitments and benefits which Executive Board members would receive in the case of premature or regular termination of their activities as Executive Board members or which have changed during the financial year are disclosed under Section 1.3 "Reporting pursuant to Section 315 para. 4 of the German Commercial Code".

## STATEMENT ON CORPORATE GOVERNANCE

pursuant to Section 289a of the German Commercial Code by the Executive Board and the Supervisory Board of Phoenix Solar AG on the German Corporate Governance Code

### COOPERATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and Supervisory Board make up the dual board system of Phoenix Solar AG. They work closely together in implementing a responsible opportunity and risk management with the aim of raising the enterprise value on a sustainable basis. In this task, the two functions of “management” and “supervision” are clearly separated.

The members of the Executive Board head up and manage the company collegially under their own responsibility. The basis of their cooperation are the bylaws. The Executive Board develops the corporate strategy and initiates measures for its implementation at the operational level. A clear allocation of responsibilities which accords with the schedule of responsibilities determines the competences of the individual members of the Executive Board. The Executive Board informs the Supervisory Board regularly, within a reasonable period of time, and extensively about all important issues relating to business development, strategy and planning, risk management and compliance, as well as about compliance with laws and defined codes of conduct. The Supervisory Board is informed immediately about important events which could exert a major impact on the company.

The Non-Executive Board, which was set up in 2009, was reduced from three to two members in the financial year 2010. The respective manager left the company as an employee and was elected to the Supervisory Board of Phoenix Solar AG by the 2010 Annual General Meeting of Shareholders.

The Supervisory Board consists of six members who supervise and advise the Executive Board in the management of the company. The Supervisory Board has laid down a set of bylaws as a basis for its work. It agrees the strategy developed by the Executive Board and keeps itself informed of the status of strategy implementation, the financial and investment planning of the next financial year and of medium-term planning. Outside of the regular meetings, the Chairman of the Supervisory Board in particular engages in ongoing dialogue with the Chairman of the Executive Board on the issues of strategy, business development and risk management.

## THE COMMITTEES OF THE SUPERVISORY BOARD

To organise its work as efficiently and effectively as possible, the Supervisory Board of Phoenix Solar AG has formed three consultative committees in accordance with its bylaws. Each of these committees met in the financial year ended. The frequency of meetings depended on the requirements for fulfilling the respective tasks. The regulations applicable to the Supervisory Board also apply to the committees accordingly. Reports on the work of the committees are regularly made to the Supervisory Board.

The Audit Committee has three members: Prof. Dr. Thomas Zinser (Chairman), Oliver Gosemann and Dr. Patrick Schweisthal. The committee is tasked with defining the key audit areas in respect of the annual financial statements with the independent auditor and with the discussion of interim reports. The regulations set out under the GCGC which require that the Chairman of the committee must have expert knowledge and experience in the application of accounting principles and internal control procedures are fulfilled in the person of Prof. Dr. Thomas Zinser, who is a tax consultant.

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 Executive Board and for ascertaining the extent to which goals have been achieved. In addition, the committee draws up the Executive Board member contracts and puts forward proposals for long-term succession planning for the Executive Board. The Personnel Committee is made up of the following members: J. Michael Fischl (Chairman), Dr. Torsten Hass and Prof. Dr. Klaus Höfle.

The Nomination Committee is made up of the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. The tasks and responsibilities of the committee in 2010 were to put forward recommendations for suitable candidates for election to the Supervisory Board by the Annual General Meeting of Shareholders on 16 June 2010.

## JOINT DECLARATION OF CONFORMITY

The Executive Board and the Supervisory Board of Phoenix Solar AG herewith declare that, since the last Declaration of Conformity dated 19 March 2010, Phoenix Solar AG complies and has complied with the recommendations of the Government Commission's German Corporate Governance Code in the version dated 18 June 2009 through to 25 May 2010, as well as the recommendations of the Government Commission's German Corporate Governance Code of the version dated 26 May 2010 subsequently published in the official section of the German Federal Gazette on 2 July 2010, with the exception of the following:

RETROACTIVE CHANGES TO THE PERFORMANCE TARGETS OR SIMILAR PARAMETERS MUST BE EXCLUDED IN THE VARIABLE REMUNERATION (in accordance with Code Item 4.2.3)

Phoenix Solar AG is of the opinion that, given the dynamic market environment, the adjusting of performance targets or similar parameters may be expedient and acceptable in exceptional cases.

THE AUDIT COMMITTEE SHOULD ALSO ADDRESS ISSUES OF COMPLIANCE IN PARTICULAR (in accordance with Code Item 5.3.2)

Issues of compliance are handled by the Personnel Committee owing to the special experience of the Chairman of this committee who is also Chairman of the Supervisory Board.

PREPARATION OF SUPERVISORY BOARD MEETINGS AND DECISIONS BY THE COMMITTEES (in accordance with Code Item 5.3.5)

Given the size of Phoenix Solar AG, the Supervisory Board does not currently deem it necessary to have its meetings prepared by committees.

DEADLINES FOR THE PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (in accordance with Code Item 7.1.2)

The company's high quality requirements preclude a publication of the Consolidated Financial Statements within the 90-day period. Publication on the company's webpages will take place within the space of a few days after the meeting of the Supervisory Board during which the consolidated financial statements are adopted.

Sulzemoos, 18 March 2011  
Phoenix Solar Aktiengesellschaft



On behalf of Executive Board  
**Dr. Andreas Hänel**  
(Chairman of the Executive Board)



On behalf of the Supervisory Board  
**J. Michael Fischl**  
(Chairman of the Supervisory Board)



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$4 \cdot 10^8$





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*Turtle in the South China Sea of Kota Bahru, Malaysia*



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The power of the sun as a giver of life: Some 400,000,000 turtle eggs are hatched a year, warmed by the sun on the coasts of tropical and sub-tropical oceans. To make this potential useful to people as well, Phoenix Solar completed a number of ground-breaking photovoltaic projects in Oman and Singapore in 2010.

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The greatest potential for producing energy through photovoltaics is in the earth's sunbelt within a band of up to 35° north and south of the equator. We have already realised a number of flagship projects in selected regions – in 2011 it will be building the largest solar plant to date in Saudi Arabia.

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Photovoltaics has the huge opportunity of becoming one of the most important energy technologies in many sunny regions of our world by 2030. The rapidly developing economies in Asia, for instance, will be using an increasingly large proportion of the global energy requirements in the next 20 years. Moreover, many countries have comparatively high electricity prices.

#### FLAGSHIP PROJECTS IN SINGAPORE


Back in 2009, Phoenix Solar equipped Singapore's Changi Airport with a rooftop photovoltaic plant, making it the first commercial airport in South East Asia with a power plant of this type. Another flagship project is the solar power plant on the new company building of equipment supplier Applied Materials. The power plant has a peak power of around 400 kW. The 32,000 square metre production centre has been given the Green Mark Platinum award by the national building and construction Authority.

#### MALAYSIA OPTS FOR RENEWABLE ENERGIES

Wherever the need for energy is growing, there is also an interest in photovoltaics. Under the National Renewable Energy Policy and Action Plan, electricity produced from renewable energies is to be raised from 1 percent to 5.5 percent by 2015 in Malaysia. Malaysia's Ministry of Energy therefore plans to introduce feed-in tariffs for photovoltaic plants as from 2011.

**3.5 MWp**

is the electricity yield of the photovoltaic plant which Phoenix Solar has been commissioned to build by the Saudi Arabian Oil Company in 2011.

 see p. 50

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**Saudi Arabia is a country where conditions for solar power plants are ideal. We are delighted to be building the largest ground-mounted plant to date and will use our know-how to support the introduction of renewable energies into the Gulf Region to the best of our ability.**



Expertise in building solar power plants – power plant built on the rooftop of Singapore’s Changi Airport.

Phoenix Solar not only set up a new company in Malaysia in 2010, but has also realised its first projects: A rooftop power plant on the factory building of a photovoltaics component manufacturer in Penang is producing 169 kWp with CIGS thin-film modules. Another rooftop power plant, completed in 2009, was built on the new headquarters of the Energy Commission of Malaysia in Putrajaya.

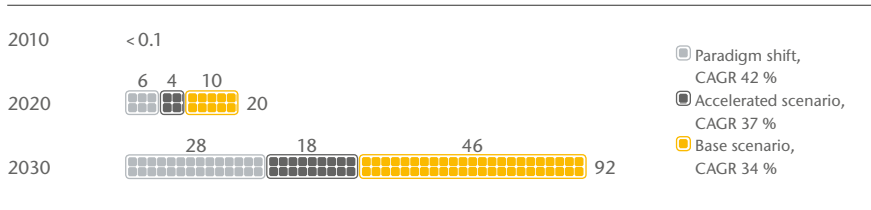
**PHOTOVOLTAICS ON ITS WAY TO THE GULF STATES**

When the world’s largest oil producing company wants to invest in renewable energies, our system know-how is in demand. Phoenix Solar built test facilities with sophisticated measurement technology on the property of the Saudi Arabian Oil Company in Dhahran on the east coast of Saudi Arabia. This will be a source of sound expertise which will be incorporated into future photovoltaic projects in the Middle East.

A first outstanding example is the largest solar power plant in Saudi Arabia with 3.5 MWp built on the land where King Abdullah Petroleum Studies and Research Center (KAPSARC) is currently under construction, close to the capital of Riyadh. Phoenix Solar won the project in an international bidding process at the start of 2011 and will plan and complete the power plant by the end of September.

see p. 77

Scenarios for installed photovoltaic capacity in South East Asia until 2030 in GWp



Source: A.T. Kearney, October 2010

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# MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2010

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## SUMMARY AND OVERVIEW

Phoenix Solar AG benefited from the worldwide economic recovery in 2010, during which the photovoltaic industry also experienced intensive growth. Attractive subsidies in key markets and a moderate decrease in module prices in the middle of the year helped assure a generally positive market environment.

The core market of Germany was heavily influenced in particular by the unscheduled reduction of subsidy rates under the German Renewable Energies Act (EEG), the first phase of which entered into force on 1 July 2010. As a result of the associated pull-forward effects, the Group's business performance in the second quarter was the strongest in its history. However, the Group's performance in the second half of the year fell short of expectations, due to the correspondingly weaker third quarter and the non-occurrence of the otherwise customary end-of-year rally in the fourth quarter, as well as the further reduction in remuneration rates under the German Renewable Energies Act, which took effect on 1 October 2010.

Developments in the European photovoltaic markets were quite mixed in 2010. Attractive subsidy conditions and a positive administrative environment led to strong growth in France and Italy. On the other hand, the markets of Spain and the Czech Republic deteriorated considerably towards the end of the year, due to the partially retroactive effects of legislation that provoked a loss of confidence among investors.

Amid this partially difficult environment, Phoenix Solar achieved further profitable growth. The revenues of EUR 636 million generated in 2010 represented a record high for the Group. The proportion of total revenues generated outside the home market of Germany reached 25.9 percent in 2010. At EUR 36.4 million, the earnings before interest and taxes (EBIT) increased at a faster rate than revenues.

Phoenix Solar anticipates that the importance of the German market will continue to diminish in the future. In 2011 the company plans to generate a significantly higher share of total Group revenues outside of Germany than in financial year 2010. The Group will continue to advance the internationalisation of its business. In 2011, Phoenix Solar AG expects to generate higher proportions of total revenues in the countries of Italy, France and Greece, as well as the Middle East, Asia and the United States.

In terms of revenues, the Executive Board expects stagnation or a marginal increase in 2011, to be followed in 2012 by a stronger growth in revenues and EBIT, with the associated continued profitable expansion of the Phoenix Solar Group.



## 1 BUSINESS ACTIVITY AND FRAMEWORK CONDITIONS

### 1.1 GROUP STRUCTURE AND BUSINESS ACTIVITY

#### 1.1.1 LEGAL STRUCTURE OF THE GROUP

Phoenix Solar is a leading European supplier, and increasingly also a globally active supplier of photovoltaic systems. The parent company Phoenix Solar AG was formed on 18 November 1999 and was registered in the Commercial Register of the Munich District Court under the HRB No. 129117 on 7 January 2000. Besides the parent company, the Group comprises 11 subsidiaries and eight project companies, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

#### 1.1.2 OPERATING SEGMENTS AND ORGANISATION

Phoenix Solar AG has its headquarters in Sulzemoos, close to Munich. The Group's global activities in the areas of finance, personnel, procurement and international logistics, engineering and innovation, quality assurance, IT and organisational development, marketing and corporate communication are centrally managed from this location. Furthermore, strategic and business development as well as European sales are coordinated by the headquarters in Sulzemoos. Elements of the Power Plants segment, such as power plant construction, operational management and maintenance service (power plant maintenance), are located in the Ulm Office.

As a leading international photovoltaic systems integrator, Phoenix Solar develops, plans, builds and operates large-scale photovoltaic power plants. It is also a specialised wholesaler for complete solar power systems, solar modules and accessories. The Group operates in the two complementary business segments of Components & Systems and Power Plants. As a general rule, this division is also observed in the subsidiaries, subject to local adjustments. For example, the US subsidiary has only been active in the project business to date.

In addition to supplying individual components for photovoltaic plants, the Components & Systems segment also develops tailored system solutions, provides planning support and offers logistical and other services (such as training and marketing support, for example). The customers of this operating segment include resellers and installation companies such as electrical installation companies, retailers and wholesalers of electrical products, heating and sanitation companies, roofers and solar power specialists.

In its Power Plants segment, Phoenix Solar handles the necessary planning work and the turnkey construction of photovoltaic systems up to the multi-megawatt range, including the subsequent operational management and maintenance. For sales and marketing purposes, the Power Plants segment is sub-divided into the divisions of solar field systems and rooftop systems. The rooftop systems sales department acquires orders as a general contractor, through tendering procedures, for example. Customers include private individuals, retail companies, industrial companies and trade companies. In its solar-field sales department, Phoenix Solar mainly serves institutional investors, which are either seeking to set up investment fund models or to hold large-scale photovoltaic plants in their own portfolio as direct investors.

#### 1.1.3 KEY LOCATIONS

Through its operating subsidiaries, Phoenix Solar AG currently operates on four continents. Having entered the German core market around the end of 1999, the Group has energetically pursued the international expansion of its business since 2006. The Group's business in the growth regions in Southeast Asia has been coordinated from Singapore for the last five years. Furthermore, the Group has maintained a subsidiary in Australia (Adelaide) since 2008. The Group has served the markets of the Middle East

from Oman (Muscat) since 2009. In the second half of 2010, Phoenix Solar entered the US market (San Ramon, California). Also in the second half of 2010, it entered the Malaysian market (Kuala Lumpur); that country is expected to introduce a feed-in tariff modelled on the German example in the current financial year.

As of the reporting date, Phoenix Solar was also represented by European subsidiaries in Spain (Madrid), Italy (Rome), Greece (Athens) und France (Lyon). In addition, Phoenix Solar maintains representative offices in the Czech Republic (Brno) and Bulgaria (Sofia).

Revenue share of subsidiaries in % of consolidated revenues	
Phoenix Solar S.L., Madrid, Spain	3.7
Phoenix Solar S.r.l., Rome, Italy	3.9
Phoenix Solar E.P.E., Athens, Greece	0.9
Phoenix Solar SAS, Lyon, France	3.6
Phoenix Solar Pte. Ltd., Singapore, Singapore	0.3
Phoenix Solar Pty. Ltd., Adelaide, Australia	0.0
Phoenix Solar L.L.C., Muscat, Oman	0.0
Phoenix Solar Incorporated, New Castle/Delaware, USA	0.0
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	0.0

#### 1.1.4 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops the Group's business strategy, in consultation with the Supervisory Board. The business strategy is reviewed annually and adjusted to reflect the dynamic development of the solar power market and the rapid changes in the market introduction programs of photovoltaic products and systems. Phoenix Solar pursues the goal of being able to serve a market that is not dependent on state subsidies at the earliest possible time.

The divisional responsibilities of the individual Executive Board members are described in Section G, Note (42) of the notes to the consolidated financial statements. The individual tasks of Executive Board members and the cooperation among them are governed by the executive division of responsibilities plan and by internal rules of procedure, both of which are adopted by the Supervisory Board. The Executive Board monitors key developments in the managerial divisions on a regular basis and makes decisions on relevant issues. In addition to exercising their divisional responsibilities, the individual members of the Executive Board are also represented on the supervisory bodies of the subsidiaries in the United States and Singapore.

The Supervisory Board of Phoenix Solar AG, which is composed of six members, advises the Executive Board and supervises its activities and decisions. To that end, the Supervisory Board has established an Audit Committee, a Personnel Committee and a Nominating Committee, each of which is composed of three Supervisory Board members.

The members of the Executive Board receive a fixed salary, which is subject to an annual review, and a variable compensation component, which is tied to personal and quantitative goals. As of 2010, the Executive Board and Supervisory Board have agreed to set the goals to be fulfilled for the quantitative variable compensation component on the basis of a representative peer group. For that purpose, the performance of Phoenix Solar AG will be compared with that of roughly 20 competitors on the basis of the key indicators of revenues and EBIT (earnings before interest and taxes).

The members of the Supervisory Board receive a fixed annual salary, which is higher for the Chairman and Vice Chairman. In addition, the Supervisory Board receives a variable compensation component, which is determined on the basis of the company's EBIT performance in the last three years (based on the separate financial statements of Phoenix Solar AG prepared in accordance with the German Commercial Code). In addition, Supervisory Board members receive attendance fees and reimbursement of their expenses.

## COMPENSATION REPORT

**Basic principles of the compensation system for the Executive Board and Supervisory Board** In accordance with Section 315 (2) (4) of the German Commercial Code (HGB), the basic principles of the compensation system applied for setting the total compensation of the Executive Board and Supervisory Board of Phoenix Solar AG, as prescribed in Section 314 (1) (6) HGB, are presented in the following Compensation Report. The Compensation Report accords with the provisions of the Executive Board Compensation Disclosure Act (VorstOG) and the recommendations of the German Corporate Governance Code. It details the itemised compensation granted to individual members of the Executive Board and Supervisory Board.

**Executive Board** The compensation of Executive Board members is composed of a fixed component that is not dependent on success and a variable component that is dependent on success. By that means, the individual Executive Board members are rewarded for their performance and success, also in consideration of the company's economic position and success. The granting of stock options represents an additional component with a long-term incentive effect, in alignment with the Group's future performance.

In financial year 2010, the total compensation of Executive Board members was composed of the non-success-dependent components and the success-dependent components described below.

The non-success-dependent components include a monthly base salary, the provision of a company car conformant with the Company Car Guideline, which can also be used for private purposes, and the assumption of a premium for an accident insurance policy that primarily covers accidents on the job, but also covers liability in the private sphere. Furthermore, an additional expense of EUR 188 thousand was incurred in connection with a no-competition clause agreed between Mr. Bächler and Phoenix Solar AG in relation to his resignation from the Executive Board. The no-competition clause has a term of one year and the corresponding amount will be paid in twelve monthly instalments.

In connection with the implementation of the German Executive Board Compensation Act, the Group revised the rules applicable to success-dependent compensation components in 2010. As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals is applied. To ensure that the compensation system is appropriately geared to long-term success, long-term incentives were installed in the form of an EBIT hurdle for the quantitative goals and a bonus index system based on a multiplier concept. The EBIT hurdle protects the interests of investors by stipulating that a bonus will be paid only if the adjusted EBIT is appropriate relative to the total compensation costs of the Executive Board and Supervisory Board. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the indexed operating performance of exchange-listed companies and their principal business segments. As a result, earned bonuses are paid on two different due dates. The first instalment is paid in the first half of the subsequent year and the second instalment is usually paid in the first half of the year following the subsequent year, provided that the EBIT hurdle is met in the subsequent financial year; if the EBIT hurdle is not met, the second instalment can be carried forward by one year, but will be forfeited in the second subsequent year if the EBIT hurdle is not met in the following year.



The components with a long-term incentive effect consisted of 48,000 options to purchase shares of Phoenix Solar AG. The fair value of each stock option at the grant date was EUR 13.912. By reason of the resignation from the Executive Board of Mr. Bächler as of 31 December 2010, his stock options expired at the close of the reporting date.

The number of stock options granted was determined on the basis of the Executive Board's performance and the fulfilment of the adopted goals. The subscription price is calculated as the average closing share price on the Xetra trading platform over the five trading days preceding the grant date. The stock options can be exercised only two years after the grant date ("vesting period"). Thereafter, they can be exercised within a period of four years after expiration of the vesting period ("exercise period"). As another condition, the closing price of the company's share in the first year of the exercise period must be 40 percent higher than the subscription price on ten consecutive trading days. Thereafter, the share price must be 20 percent higher in each year of the exercise period. The stock options, which are measured at fair value, are presented as components with a long-term incentive effect.

The total compensation granted to the five-member Executive Board in financial year 2010 amounted to EUR 2,391 thousand (PY: EUR 1,822 thousand). This compensation is presented on an individually itemised basis in the table below:

	Non-success- dependent components	Success- dependent components	Components with a long-term incentive effect (no payment in 2010)	Total
	k€	k€	k€	k€
Dr. Andreas Hänel	176 (175)	171 (45)	139 (162)	486 (382)
Manfred Bächler	348 (169)	120 (41)	125 (162)	593 (372)
Dr. Murray Cameron	140 (140)	127 (29)	125 (162)	392 (331)
Sabine Kauper	163 (148)	154 (41)	139 (162)	456 (350)
Ulrich Reidenbach	171 (165)	154 (60)	139 (162)	464 (387)
<b>Total</b>	<b>998</b> <b>(797)</b>	<b>726</b> <b>(215)</b>	<b>667</b> <b>(810)</b>	<b>2,391</b> <b>(1,822)</b>

(Prior-year figures in parenthesis)

No pension commitments have been extended to members of the Executive Board. In case of death, compensation will be paid to the survivors for a period of six months.

For more information on the change-of-control clauses contained in the Executive Board contracts and the corresponding compensation promised in the event of a premature departure from the Executive Board, please refer to our comments in Section 1.3 Report pursuant to Section 315 (4) HGB.

No loans were extended to members of the Executive Board.

**Supervisory Board** The compensation of the Supervisory Board was set and resolved by the annual general meeting of 7 July 2006, in accordance with Article 11 of the company's Articles of Association. The compensation is composed of fixed, non-success-dependent components and variable, success-dependent components; therefore, it is appropriately aligned with the workload of the individual members of the Supervisory Board and the economic position of the company.

#### a) Non-success-dependent compensation

Compensation of EUR 5,400 was paid to each member of the Supervisory Board for their work in financial year 2010. The compensation granted to the Chairman of the Supervisory Board is three times higher and that granted to the Vice Chairman is one and a half times higher than the compensation granted to the other members of the Supervisory Board. As ancillary benefits, the company pays the premiums for the accident insurance of Supervisory Board members. Each Supervisory Board member receives an attendance fee of EUR 500 for each attended meeting of the Supervisory Board and its committees.

Every member of the Supervisory Board additionally receives a fixed annual compensation of EUR 1,500 for his activity on one or more committees of the Supervisory Board. The chairman of each committee receives twice that amount. If the chairman of a committee is also the Chairman or Vice Chairman of the Supervisory Board, he receives the additional fixed compensation for activity on one or more committees of the Supervisory Board without increases.

#### b) Success-dependent compensation

The members of the Supervisory Board additionally receive an annual bonus, based on the EBIT presented in the separate financial statements of Phoenix Solar AG, which are prepared in accordance with German commercial law. The bonus is EUR 750 for each EUR 1 million of the average EBIT over the last three years. Also in this case, the Supervisory Board Chairman receives three times that amount and the Vice Chairman receives one and a half times that amount. The compensation of the Supervisory Board does not include a component aligned with the long-term success of the Group.

There are no consultant contracts between the company and members of the Supervisory Board. Furthermore, Supervisory Board members did not receive any loans from the company.

The total compensation granted to the Supervisory Board in 2010 amounted to EUR 305 thousand (PY: EUR 214 thousand). The itemised compensation granted to individual members of the Supervisory Board is presented below (net figures, excluding value-added tax):

Compensation excluding value-added tax	Non-success- dependent components	Success-dependent components (including performance bonus)	Components with a long-term incentive effect	Total
	k€	k€	k€	k€
J. Michael Fischl	28 (24)	63 (40)	0 (0)	91 (64)
Ulrich Fröhner (until 16/06/2011)	9 (17)	11 (20)	0 (0)	20 (37)
Oliver Gosemann (since 16/06/2011)	12 (0)	12 (0)	0 (0)	24 (0)
Dr. Torsten Hass (since 16/06/2011)	10 (0)	12 (0)	0 (0)	22 (0)
Ulrich Th. Hirsch (until 16/06/2011)	8 (14)	16 (14)	0 (0)	24 (28)
Prof. Dr. Klaus Höfle	20 (14)	21 (14)	0 (0)	41 (28)
Dr. Patrick Schweisthal	17 (14)	27 (14)	0 (0)	44 (28)
Prof. Dr. Thomas Zinser	18 (15)	21 (14)	0 (0)	39 (29)
<b>Total</b>	<b>122 (98)</b>	<b>183 (116)</b>	<b>0 (0)</b>	<b>305 (214)</b>

(Prior-year figures in parenthesis)

### 1.1.5 IMPORTANT PRODUCTS, SERVICES AND BUSINESS PROCESSES

Phoenix Solar offers a broad-based, innovative product portfolio for photovoltaic plants of all sizes. Therefore, our Group can accommodate the needs of different customers in a flexible and focused manner. The diverse offering comprises solar modules produced by different manufacturers, based on different technologies. Because the Phoenix Group is not tied to a particular module technology, it can offer photovoltaic systems tailored to the needs of individual customers and geared to market developments. The Group continually expands its product range through the addition of new technologies and innovative products. Phoenix Solar AG was convinced at an early stage that thin-film technologies in particular would play a more important role in the market. We were quick to recognise the cost advantages associated with these technologies and applied those advantages when building our photovoltaic plants. As a result, Phoenix Solar became one of the leading users of thin-film modules within only a few years.

The Group also possesses extensive expertise in the Power Plants segment, accumulated over many years of working in that field. The Group has executed numerous large-scale power plant projects in the last few years. In the process, we acquired additional technical expertise in the planning and installation of large-scale plants, particularly involving the use of thin-film technologies. Through intensive exchanges with manufacturers, we have been able to further increase the efficiency and profitability of solar power plants, so as to effectively respond to cost pressures in the solar power industry.

### 1.1.6 KEY SALES MARKETS AND COMPETITIVE ADVANTAGES

The home market of Germany was the Group's most important sales market again in 2010. Through its subsidiaries and representative offices, Phoenix Solar AG was also active in the European markets of France, Italy, Spain, Greece, the Czech Republic and Bulgaria. Since 2010, the Group has also served the US market through its newly formed subsidiary in San Ramon, California. Furthermore, the Group formed a subsidiary in Malaysia in 2010, in anticipation of the Grid Feed-in Act expected to take effect in 2011. Furthermore, Phoenix Solar entered the solar power market in the Persian Gulf region by forming a subsidiary in Oman in 2009. The Australian market is served by a subsidiary in Adelaide and the Group's subsidiary in Singapore serves attractive Asian niche markets, such as Thailand and the Philippines.

The Phoenix Solar Group has many years of experience in the photovoltaic systems business, based on a proven business model. Due to the fact that the Phoenix Solar Initiative (an initiative of the Bund der Energieverbraucher e. V., from which the company emerged) entered the photovoltaic market at an early stage in 1998, Phoenix Solar is thoroughly familiar with the conditions of this market and holds a strong market position. Those attributes enhance the Group's competitiveness considerably. In addition, the management has cultivated valuable contacts with companies, industry associations and relevant research institutions over many years.

Phoenix Solar systematically exploits synergies from the combination of its two operating segments, especially in the areas of technological expertise, product innovation, cost reduction, reinforcing the Group's procurement position and coordinated demand management. In the last few years, the Group has increasingly been able to apply the experience gathered in the Power Plants segment to refine and optimise the systems offered in the Components & Systems segment. In addition to its own expertise, our Group also benefits from its close ties with manufacturers. As a result of these advantages, the Group has been able to technically optimise the systems employed and reduce system costs. As another advantage resulting from the linkage of its two operating segments, Phoenix Solar has been able to optimise the procurement volumes for modules and components, thereby assuring more constant purchases from manufacturers and smoothing out demand imbalances between the various segments and countries in which the Phoenix Group operates.

Competition is further intensified by the rapid pace of change in individual markets, particularly with respect to the public policies in effect in the different countries. That trend places high demands on the flexibility of all companies operating in the photovoltaic sector. The Phoenix Solar Group is well equipped for this competition because its business model is focused on photovoltaics and the Group is planning to accelerate its expansion into foreign markets. As part of that strategy, the Group also intends to continually venture into new markets around the world. In each particular market, Phoenix Solar collaborates with local sub-contractors, selected on the basis of uniform Groupwide quality standards. Modules and inverters are likewise subject to stringent quality controls and the Group's construction processes are certified under DIN EN ISO 9001 and 14001.

Phoenix Solar also develops its own assembly dollies and mounting systems, some of which are protected by patents or registered utility models. In connection with the extensive planning and consulting services offered by the Group, Phoenix Solar has also developed its own planning software for customers.

## 1.2 MANAGEMENT, GOALS AND STRATEGY

### **1.2.1 INTERNAL MANAGEMENT SYSTEM**

The overriding goal of the Phoenix Solar Group is to increase the company's value on a systematic and sustainable basis. For the purpose of managing, overseeing and monitoring the company's business, we employ a management system based on key performance indicators, accompanied by an integrated controlling concept. The key indicators applied for the purpose of managing the business of the Phoenix Solar Group are EBIT and the ratio of EBIT to revenues (EBIT margin). Other managerial indicators applied are Return on Capital Employed (ROCE) and the Working Capital Ratio (ratio of working capital to revenues).

In addition, the economic success of the Phoenix Solar Group is influenced by various non-financial performance indicators arising from the requirements of our business model. The fulfilment of the goals represented by such non-financial performance indicators is monitored during the year by means of a "balanced scorecard", which covers both financial indicators and non-financial indicators. To monitor the company's performance from the perspective of customers and employees, the company takes into consideration non-financial indicators such as customer satisfaction and employee loyalty and assesses the fulfilment of the goals adopted for those purposes. For that purpose, overriding Groupwide goals, performance drivers, measures and key indicators are adopted in close consultation with the operating divisions. The managerial indicators so derived serve as structural early warning signs.

### **1.2.2 STRATEGY**

The Phoenix Solar Group pursues the strategic objective of securing its position in Germany as a leading supplier of photovoltaic systems technology, one that is not bound to specific manufacturers, and to continually extend its international position. Phoenix Solar strives to become more independent of state subsidies, so as to counter the risks inherent in dependency that currently exists. The Group intends to achieve that goal primarily by means of cost reductions and innovations in the planning and construction of systems, through the use of new technologies and by way of increased internationalisation.

To implement this strategy, the company has resolved to take the following steps:

- Continued focus on the core competence of photovoltaic systems technology;
- Internationalisation of business activities;
- Growth in excess of global market growth rates;
- Expanded offering of innovative and competitive photovoltaic modules;
- Further reductions in the cost of photovoltaic systems, in order to allow for the lower-cost generation of solar power.

The business model of the Phoenix Solar Group is not entirely comparable with those of other exchange-listed photovoltaic companies because Phoenix Solar specialises exclusively in systems technology. In the opinion of the management, extending the company's business model to include other technologies for generating electricity from renewable energies (such as wind and biomass, for example) or the production of inputs for photovoltaic modules would not be commensurate with the company's goals.

In the opinion of the company's management, pursuing a business model focused on photovoltaic systems technology offers the best long-term growth prospects. Experts predict strong growth, with average annual increases of substantially more than 20 percent, for the global photovoltaic market in the coming years. The Phoenix Solar Group is well positioned to attain a leading worldwide position in this fast-growing market. For that reason, the Group will step up its efforts to tap new markets in the coming years.

Phoenix Solar strives to achieve growth rates that are higher than the average growth of the worldwide photovoltaic market over the long term. To achieve that goal, the Group will have to continually increase its market share in the markets it already serves, while also accelerating its international expansion. The company's goal is to systematically increase the proportion of total revenues generated in international markets to 65 percent in the year 2013.

The Phoenix Solar Group continuously develops new systems technology solutions and optimises its existing systems technology solutions. Such efforts are crucial to identifying potential cost reductions in photovoltaic plants, so that the company can offer them at lower costs. By that means, the company will seek to make its photovoltaic plants economical also in the absence of state subsidies and market incentive programs, at the earliest possible time.

### 1.3 REPORT PURSUANT TO SECTION 315 (4) HGB

As of 31 December 2010, the share capital of Phoenix Solar AG amounted to EUR 7,372,700. It is divided into 7,372,700 no-par bearer shares. All shares are issued and fully paid up. In accordance with Article 5 Para. 5 of the Articles of Association, shareholders are not entitled to individual physical certificates. The bearer shares may be transferred without the company's consent. All shares are common shares. Every share conveys equivalent, full co-determination and property rights. Every share grants the same rights. Each share entitles the holder to cast one vote in the annual general meeting. Further rights and obligations of shareholders are set forth in the German Stock Corporations Act (AktG), particularly Sections 53a et seq. and 118 et seq. AktG.

There are no restrictions on voting rights, nor on the transfer of shares. The company's Executive Board is not aware of any private-law agreements of this kind between shareholders.

The company is not aware of any shareholders who directly or indirectly hold more than 10 percent of the company's share capital. The company has not received any notices to that effect as required by the German Securities Trading Act.

No shares endowed with special rights conveying rights of control have been issued.

Shares under the Stock Option Plan 2006 are transferred directly to the employee beneficiaries. Like other shareholders, the beneficiaries can exercise the control rights embodied in those shares immediately, in accordance with the provisions of the German Stock Corporations Act and the company's Articles of Association.

Amendments to the Articles of Association are subject to the statutory provisions of Sections 133, 179 AktG. In accordance with Article 12 Para. 3 of the company's Articles of Association, the Supervisory Board is authorised to resolve amendments that only affect the wording. By virtue of the resolutions of the annual general meetings of 7 July 2006 and 16 June 2010, the Supervisory Board is also authorised to amend Article 5 of the Articles of Association to reflect the respective utilisation of the Conditional Capital 2006, the Authorised Capital 2010 and the Conditional Capital 2010. The Supervisory Board is similarly authorised after expiration of the respective authorisation periods and, in the event that the Conditional Capital 2010 would not be utilised, after expiration of all conversion and/or warrant periods.

The Supervisory Board appoints and dismisses Executive Board members in accordance with the statutory provisions of Sections 84 et seq. AktG. The number of Executive Board members and any alternate Executive Board members is determined by the Supervisory Board in accordance with Article 6 Para. 2 of the company's Articles of Association.

By resolution of the annual general meeting of 16 June 2010, the Executive Board was authorised, with the consent of the Supervisory Board and by analogous application of Section 186 (3) (4) AktG, to purchase treasury shares on one or more occasions, either on the stock exchange or by way of a public purchase offer directed to all shareholders, and to sell such treasury shares in conformity with certain defined conditions. Treasury shares may not exceed 10 percent of the company's share capital, for which purpose the actual share capital will be decreased or increased by the stated number of shares to be purchased. This authorisation remains in effect until 15 June 2015.

Also by resolution of the annual general meeting of 16 June 2010, the Authorised Capital 2006 was annulled and a new Authorised Capital 2010 was created. Under this resolution, the Executive Board is authorised, with the consent of the Supervisory Board, to increase the company's share capital by a total of up to EUR 3,351,250 through the issuance of new bearer shares in exchange for cash or in-kind contributions on one or more occasions in the time until 15 July 2015 (Authorised Capital 2010). The Executive Board is authorised, with the consent of the Supervisory Board, to decide on the exclusion of the shareholders' subscription rights. Furthermore, the Executive Board is authorised, with the consent of the Supervisory Board, to adopt the further particulars of each such capital increase and the issue terms and conditions. The Supervisory Board is authorised to amend the wording of the Articles of Association to reflect the extent of the capital increase. The authorisation was utilised on 13 July 2010 in the total amount of EUR 670,200, under exclusion of subscription rights. Thus, the remaining Authorised Capital 2010 amounts to EUR 2,681,050.

Under the Stock Option Plan for members of the Executive Board, members of the senior management of Group companies and other selected senior managers and key employees of the Group, which was resolved by the annual general meeting of 7 July 2006, 1,800 stock options were exercised in financial year 2010. The exercise of stock options increased the number of shares by a total of 18,000 shares. Additional information on the Stock Option Plan is provided in the Compensation Report and in Section F, Note (40) of the notes to the consolidated financial statements.

The company's share capital can be increased conditionally by an additional amount of up to EUR 536,300 through the issuance of up to 536,300 new bearer shares (Conditional Capital 2006). The conditional capital increase will be conducted only to the extent that holders of stock options granted by the company in the time until 1 July 2011 under the Stock Option Plan 2006 by virtue of the authorising resolution of the annual general meeting of 7 July 2006 exercise their stock options and the company does not issue treasury shares in settlement of the stock options. The new shares will qualify for dividends from the beginning of the financial year for which the annual general meeting will not yet have adopted a resolution on the utilisation of accumulated distributable profit at the time when the stock options are exercised.

The annual general meeting of 16 June 2010 authorised the Executive Board to issue convertible bonds and/or bonds with warrants and to create a Conditional Capital 2010. The authorisation, which is subject to the consent of the Supervisory Board, remains in effect until 15 June 2015. Under this authorisation, the subscription right of shareholders can be excluded. The Executive Board is authorised to issue such bonds with a term of no longer than five years that entitle the holder to purchase a total of up to 2,814,000 bearer shares. The terms and conditions of the convertible bonds or bonds with warrants are to be adopted separately, with the consent of the Supervisory Board.

The contractual terms and conditions of the syndicated loan extended in November 2008 contain an agreement pertaining to a change of control arising from a takeover offer. The clause stipulates that amounts drawn down under all credit facilities will be due and payable immediately if a person or several persons “acting in concert”, who were not previously shareholders of Phoenix Solar AG, directly or indirectly, would gain control of the company (“change of control”).

As of October 2008, the employment contracts of two Executive Board members contain change-of-control clauses governing the termination of their employment in the event of a change of control. One of these two Executive Board members resigned from the company effective 31 December 2010. In the events of a change of ownership, a concentration of at least 30 percent of the voting rights in Phoenix Solar AG with a single shareholder or third party or the conclusion of an affiliation agreement with Phoenix Solar AG as a dependent company, the remaining Executive Board member will be entitled, within a period of three months after gaining knowledge of the occurrence of one of the above-mentioned cases, to cancel his employment contract with advance notice of six months before the last day of a month and to resign from his post. In that case, the Executive Board member will be entitled to claim a severance award equal to a maximum of three years of annual base salary and 80 percent of the maximum possible variable compensation.

#### 1.4 RESEARCH AND DEVELOPMENT

Aside from improving the performance characteristics and quality of its products, Phoenix Solar AG is particularly focused on lowering overall system costs. Cost reductions on all levels of the value chain, including photovoltaic modules, system components and installation, represent the only way to lower the system costs in the manner required by the German Renewable Energies Act (EEG) or comparable market introduction plans through the indirect mechanism of reduced feed-in tariffs.

In addition, Phoenix Solar studies the market readiness and future prospects of new or further developed products on a continuous basis. For that purpose, particular attention is given to factors such as technological maturity, cost reduction potential and economic efficiency, against the backdrop of a constantly changing market environment. By that means, the company can identify technological trends and developments at an early stage and make appropriate adjustments to the product portfolio of the Phoenix Solar Group.

The company’s research and development activities are conducted in its Technology & Innovation Department, which had five employees as of the reporting date, corresponding to 1.6 percent of the Group’s total workforce. Including personnel expenses, Phoenix Solar invested EUR 360 thousand in its research and development activities in 2010.

#### 1.5 OVERVIEW OF BUSINESS DEVELOPMENTS IN 2010

##### **1.5.1 GENERAL ECONOMIC CONDITIONS**

The general economic environment in which the Phoenix Solar Group conducts its business was favoured by the substantial recovery of the global economy in 2010. Further repercussions of the inter-



national financial crisis were blocked by the coordinated measures of central banks. Furthermore, the imminent funding problems of over-indebted euro zone countries like Greece, Ireland, Spain and Portugal, as well as the threat to the euro posed by those problems, were averted by means of the so-called “rescue shield” in the amount of EUR 750 billion.

Measured by the change in gross domestic product (GDP), the euro zone experienced moderate economic growth of 0.7 percent in 2010; compared to the previous year, however, when the euro zone economy contracted by 4 percent, the economic environment improved considerably in 2010. The economic situation of the individual euro zone countries was extremely mixed, however. In Germany, booming exports and strong domestic demand fuelled growth of GDP 3.6 percent, according to preliminary calculations of the German Federal Statistical Office.

According to preliminary estimates, GDP growth in France and Italy was 0.7 and 1.2 percent, respectively, representing a middle range among European economies. Compared to the prior year, however, their economies improved markedly, considering the fact that the GDP of both countries contracted by 4.7 percent in 2009. In the countries of Spain and Greece, which are still burdened by high levels of government debt, the downward slide that characterised the previous year continued in 2010, albeit at a slower rate. According to estimates, Spain’s GDP contracted by 0.8 percent and Greece’s GDP by 0.3 percent in 2010.

Again in 2010, China, India and Brazil were the main drivers of global economic growth. According to estimates, China’s GDP expanded by 10 percent, India’s by 8.3 percent and Brazil’s by 6.5 percent.

#### **1.5.2 DEVELOPMENTS IN THE PHOTOVOLTAIC SECTOR**

The photovoltaic industry experienced extremely strong growth in 2010. According to preliminary industry estimates, worldwide photovoltaic installed capacity increased by an amount between 13 and 15 GWp. Attractive subsidies in key markets and a moderate decrease of about 10 percent in module prices in the middle of the year helped assure a generally positive market environment. As a consequence of strong demand in the first half of the year, especially emanating from the German market, supplies of solar modules and inverters were subject to temporary bottlenecks, which then subsided during the course of the third quarter.

The production capacities of the photovoltaic industry, especially for polysilicon, solar cells and solar modules, were considerably expanded in 2010. The capacity expansion resulted partly from the construction of new manufacturing plants and the modernisation of existing plants and partly also from the considerable number of new manufacturers entering the market, in a continuation of the trend observed in the previous year. Because most of the capacity expansion and market entrants occurred in China, the manufacturing centre of gravity of the photovoltaic industry shifted further in the direction of that region.

Attractive photovoltaic feed-in tariffs led to strong growth in the photovoltaic markets of Italy, the Czech Republic and France. According to preliminary estimates, new installed capacity in Germany increased by around 7 GWp, almost double the increase registered in the previous year. The German photovoltaic market was affected by substantial pull-forward effects resulting from an unscheduled reduction in photovoltaic subsidies, especially in the second quarter. In a sign of reduced demand and also as a result of the unusually early and harsh onset of winter, the year-end rally that normally occurs in the fourth quarter did not materialise.

According to preliminary estimates, at least, Italy was the second strongest photovoltaic market in 2010, after Germany, with new installed capacity of 3.8 GWp. New photovoltaic capacity of more than 1 GWp was installed in the Czech Republic in 2010. France experienced steady growth, with peak output of

more than 600 MWp. The Greek market registered only a moderate increase, with new installed capacity of 100 MWp. In Spain, the photovoltaic market was nearly stagnant, with new installed capacity estimated to be only 80 MWp. The Spanish photovoltaic market was restrained particularly by the reduction in solar subsidies that began at the end of 2008, and the Greek market was adversely affected by a dearth of financing options in the wake of the debt crisis. In both countries, market growth was further inhibited by administrative hurdles.

It should also be noted, however, that the high growth rates of new photovoltaic capacity in the fast-growing markets of Germany, France, Italy and the Czech Republic have stoked a political debate concerning the level of photovoltaic subsidies in those countries. Particularly in Germany and France, this debate ultimately led to unscheduled reductions in feed-in tariffs already in 2010.

### 1.5.3 PROCUREMENT MARKET

The procurement strategy of the Phoenix Solar Group is geared to keeping a generally balanced product portfolio in stock, so as to offer a selected range of different module technologies. The individual products are meant to be used for both the Power Plants segment and the Components & Systems segment, as needed. By this means, the company can optimise its procurement volumes and manage its inventories in the most flexible manner possible.

The supplier base for modules is geographically diversified, consisting of both European manufacturers and suppliers from the Far East (mainly in China and Malaysia), which offer the advantage of lower-cost production conditions. With regard to components, Phoenix Solar works with most of the well-known inverter manufacturers. The company expanded its supplier portfolio substantially again in 2010, adding a total of nine new manufacturers, including four suppliers of modules and five suppliers of components. Of particular interest is the California-based company MiaSolé Inc., with which we entered into a multi-year master agreement in late April 2010. Through the year 2013, MiaSolé will supply Phoenix Solar with thin-film solar modules based on the innovative new copper-indium-gallium-diselenide (CIGS) technology, which are among the most efficient thin-film modules available today.

In 2010, Phoenix Solar renegotiated the terms of another long-term supply agreement, amending the quantities and prices in effect for the year 2011 to reflect changing market conditions.

Generally speaking, the company's procurement activities developed in accordance with plan in financial year 2010, despite market conditions that were sometimes difficult. That assessment applies to both product availability and procurement prices. The increased number of manufacturers and the balanced mix of suppliers from Europe, the United States and Asia produced positive benefits in 2010.

Phoenix Solar did not experience any supply bottlenecks for thin-film modules at any time last year and procurement prices were also largely stable. Only one manufacturer raised its prices, due to the development of the euro exchange rate. By contrast, the procurement prices for crystalline modules rose in the second quarter of 2010 and remained on the new, higher level throughout the second half of the year. As a result of the strong demand encountered in the months of April to June, some manufacturers experienced delivery problems, which were resolved in the following months, however.

The procurement situation relative to components was much more challenging in 2010. The company encountered significant supply bottlenecks among manufacturers of inverters already in the first quarter. These problems could not be resolved in the second quarter, leading to delivery delays that lasted into the third quarter. The availability of these products did not begin to improve until September 2010. Phoenix Solar responded to this situation in two ways. First, the company expanded its supplier base, as mentioned above; and second, the company placed nearly all its orders for the full year already in the first quarter of 2011 because the price risk for inverters is significantly lower than for modules.

Due to the early onset of winter in the core market of Germany and project delays that lasted into the year 2011, the overall level of inventories at the end of 2011 was higher than planned. At EUR 149.5 million (including goods in transit worth EUR 33.4 million), inventories reached the highest level in the company's history. If sales opportunities would deteriorate over the course of 2011, accompanied by a decline in module prices, the company may have to charge additional value adjustments against existing inventories, leading to smaller gross profit margins, in order to offer its products at competitive market prices.

#### 1.5.4 SALES MARKET GERMANY

The development of the German photovoltaic market was heavily influenced by the unscheduled reduction of subsidy rates under the German Renewable Energies Act (EEG), the first phase of which entered into force on 1 July 2010. In the wake of this adjustment, the feed-in tariffs for private and commercial rooftop photovoltaic systems, for example, declined by 13 percentage points. Depending on the plant size, therefore, the feed-in tariff fell within a range of 25.55 and 34.05 euro cents per kilowatt-hour (ct/kWh). The EEG subsidy of solar field photovoltaic plants was eliminated completely and the subsidy rates for large-scale plants with installed capacity greater than 1 MWp were reduced by 8 percentage points to 26.15 ct/kWh (conversion fields) or by 12 percentage points to 25.02 ct/kWh (other solar fields).

As a consequence of the legislation under which these subsidy reductions were adopted, the German photovoltaic market experienced its strongest growth since the enactment of the EEG in the second quarter of 2010. New installed capacity of more than 3.1 GWp was registered with the German Federal Networks Agency, including 2.1 GWp in June alone. This boom was mainly driven by powerful pull-forward effects. The market was further stimulated by less restrictive lending practices on the part of banks, thereby solving the financing logjam that arose in the first three months of the year relative to the financing of large-scale power plants with capacities of more than 1 MWp.

As expected, the German photovoltaic market slowed considerably in the third quarter of 2010, due to the vacation season in Europe and the unscheduled reductions in feed-in tariffs. In the fourth quarter, however, the performance of the German photovoltaic market fell considerably short of expectations due to overly high module prices and the early onset of winter in late November, so that the year-end rally of prior years, which had been expected by some market participants, did not materialise. The weak market conditions were further exacerbated by the second step of EEG subsidy reductions, which took effect on 1 October 2010, under which feed-in tariffs were reduced by another 3 percent in all segments.

By contrast, the subsidy rates for self-consumed solar power were improved in 2010. The new subsidy applies to rooftop systems with peak capacities of up to 500 kilowatts (kWp); the exact amount of the subsidy depends on the percentage of total electric power generated that is consumed by the producer. It remains to be seen, however, whether this measure will lead to a higher proportion of photovoltaic systems with self-consumption meters, especially in view of the fact that the new subsidy rate, which was initially adopted only for the period until 31 December 2011, may or may not be extended beyond that date.

#### 1.5.5 SALES MARKET INTERNATIONAL

Developments in the European photovoltaic markets were extremely mixed in 2010. In France and Italy, attractive subsidy conditions and a positive administrative environment promoted the stability of photovoltaic markets and fostered strong growth. The Greek market was again hindered by delays in financing, permits and grid connections. The market conditions in Spain and the Czech Republic worsened considerably towards the end of the year, due to legislative changes, some of which were retroactive in their effect, which provoked a loss of confidence among investors.

In France, an improved photovoltaic subsidy regime entered into effect in January 2010. Among other things, the new regime features higher feed-in tariffs for non-building-integrated photovoltaic systems greater than 250 kWp in those administrative divisions (known as departments) that receive less solar radiation. In addition, a new system category was introduced for building-integrated photovoltaic systems, for which a feed-in tariff of 42 ct/kWh was adopted. The new feed-in tariffs for solar field photovoltaic systems range from 31.4 to 40.0 ct/kWh, depending on the administrative district and system capacity. The new subsidy terms were originally supposed to remain in effect through the year 2012. Effective 1 September 2010, however, all feed-in tariffs with the exception of systems with capacities of less than 3 kWp were subjected to a special, one-time reduction of 12 percentage points. In addition, a three-month moratorium was imposed at the end of 2010, during which period no systems with a capacity greater than 3 kWp were approved. Nonetheless, the French tariff system still offers attractive conditions, and therefore the French photovoltaic market can be expected to experience sustained growth in the foreseeable future.

In Greece, a law was enacted in June 2010 that simplifies the subsidy approval process for commercial photovoltaic plants. In addition, this law also improves the subsidisation of non-commercial rooftop systems up to a capacity of ten kilowatts, which could have positive effects on the market outlook for this market segment in the future. On the other hand, the hold-up in subsidies resulting from administrative delays exerted a negative effect on the Greek photovoltaic market in 2010.

After the new round of massive cuts to the photovoltaic subsidy program, conditions in the Spanish market are very difficult. On 24 December 2010, a law was published that requires all operators of existing plants to pay a grid fee of 50 ct/MWh. Furthermore, the number of generating hours was limited by different amounts, depending on defined zones, for the next three years; in return, the period of feed-in remuneration was extended from 25 to 28 years. This law, which will have a significant impact on the further growth of photovoltaic systems in Spain, led to a further loss of confidence in the promises made by the Spanish government and provoked great uncertainty among investors.

In the Czech Republic, which registered the strongest photovoltaic growth in 2010 after Germany and Italy, the market situation changed dramatically at the end of the year. First, the time period allowed for breaking ground on systems that do not fall under the reformed legislation was moved up from December to November 2010; second, a reform law was enacted that imposes a retroactive tax of 26 percent on all income from the feed-in tariff. These measures had the effect of fundamentally shaking investor confidence. It remains to be seen if this market will ever again offer sustainable potential for photovoltaic systems in the future.

By contrast, the situation was considerably more positive in Great Britain, where the subsidy conditions for photovoltaic systems were changed with effect as of 1 April 2010. As per statutory order, the maximum plant size was limited to 5 MWp for purposes of the existing feed-in regulations. As a result of this act and the attractive feed-in rates, a growable market for operating photovoltaic systems could arise in Great Britain in the future.

#### **1.5.6 COMPARISON OF FORECAST WITH ACTUAL BUSINESS PERFORMANCE IN 2010**

On 7 July 2010, shortly after the publication of the specific wording of the adjustments made during the year to the German Renewable Energies Act (EEG), the Executive Board of Phoenix Solar AG announced its forecast for financial year 2010. The forecast called for consolidated revenues within a range of EUR 660 and EUR 700 million and consolidated EBIT within a range of EUR 36 and EUR 40 million. The forecast percentage of revenues to be generated in international markets was approximately 20 percent.

The considerably flatter business performance in the third quarter could not be completely made up by the end-of-year spurt that has customarily occurred in prior years. Therefore, the annual revenues of EUR 636 million were slightly less than forecast. On the other hand, the 25.9 percent of total revenues generated in the Group's international markets exceeded expectations. Thanks to stable gross profit margins in the trading and project business, as well as modified expenditure policies, the EBIT of EUR 36.4 million fell within the forecast range.

	Forecast 2010 € m	Actual 2010 € m
<b>Revenues Group</b>	660–700	636
International revenues	130–140	165
International share	20 %	25.9 %
<b>EBIT</b>	<b>36–40</b>	<b>36.4</b>

#### 1.5.7 SIGNIFICANT EVENTS IN THE FINANCIAL YEAR 2010

**Inauguration of Singapore's biggest thin-film photovoltaic plant** On 13 April 2010, our subsidiary Phoenix Solar Pte. Ltd. (Singapore) finished building Singapore's biggest photovoltaic plant based on thin-film modules, with a capacity of 380 kWp, on the new corporate headquarters of Applied Materials Inc. The building was inaugurated on the same day and Singapore's building authority honoured it with the "Green Mark Platinum" medal, in recognition of its green building design.

**Construction of three solar parks for KGAL in Germany and Italy** We announced on 19 May 2010 that Phoenix Solar AG would build three photovoltaic power plants with a total peak capacity of roughly 21 MW, including two solar parks in Italy and one solar park in Moos, near Würzburg, for KGAL GmbH & Co. KG. With a peak capacity of 15.8 MW, the solar park in Moos was the biggest that Phoenix Solar had built until that time.

**Capital increase under Authorised Capital 2010** On 13 July 2010, Phoenix Solar AG successfully conducted a capital increase, making partial use of the Authorised Capital 2010 and excluding the shareholders' subscription rights. In total, the company issued 670,200 new no-par bearer shares for a placement price of EUR 32.00 per share. The gross issue proceeds amounted to EUR 21,446,400. The proceeds will be used to finance the company's planned business growth and further internationalisation. The new shares qualify for dividends as of 1 January 2010.

**Market entry in Malaysia** In mid-September 2010, Phoenix Solar Pte. Ltd. formed a subsidiary based in Kuala Lumpur (Malaysia), which will primarily develop and build turnkey photovoltaic plants for solar fields and rooftop systems. The new subsidiary will also offer photovoltaic island systems and building-integrated solar power plants.

**Personnel change in the Executive Board** Effective 31 December 2010, Manfred Bächler, who had been Chief Technology Officer, resigned from the company's Executive Board for personal reasons. The management divisions for which Mr. Bächler had been responsible were assigned to other members of the Executive Board. In particular, Executive Board Chairman Dr. Andreas Hänel has assumed responsibility for the technology division.

#### 1.5.8 SHARE PRICE

A description of the development of the company's share price in 2010, along with other key indicators and information related to the share of Phoenix Solar AG, can be found in the section on the Phoenix Solar share.

## 2 RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION

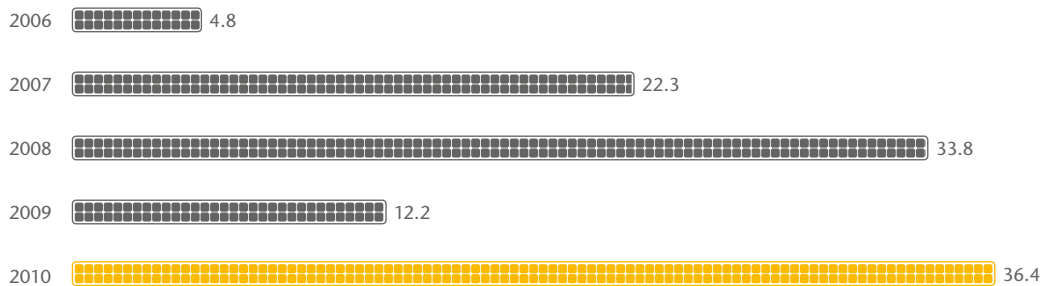
### 2.1 RESULTS OF OPERATIONS

#### HIGHLIGHTS

- Revenues increased by 34.4 percent to EUR 635.7 million
- EBIT nearly tripled to EUR 36.4 million
- EBIT margin improved from 2.6 percent to 5.7 percent

#### 2.1.1 DEVELOPMENT OF EBIT

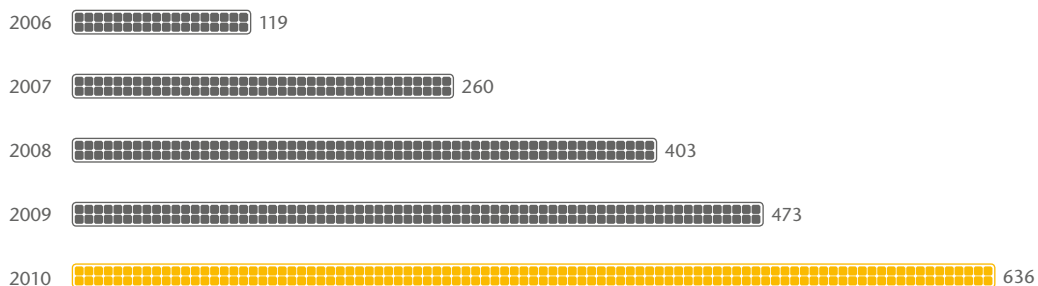
Development of EBIT 2006–2010 in € m



Despite a market environment that was sometimes difficult, especially in the second half of 2010, the Phoenix Solar Group generated revenues of EUR 635.7 million, thereby surpassing the record prior-year figure by EUR 162.7 million or 34.4 percent. The EBIT for 2010 was 198.4 percent higher than the corresponding figure for 2009, indicative of a substantially greater increase than the revenue growth achieved in 2010. Consequently, the EBIT margin, which is one of the company's key indicators for managerial purposes, more than doubled from 2.6 percent in the prior year to 5.7 percent in 2010. At EUR 24.1 million, the consolidated net profit for 2010 was 180.2 percent higher than the prior-year figure.

#### 2.1.2 ANALYSIS OF REVENUES

Development of revenues 2006–2010 in € m



The Group's revenue performance in 2010 was heavily influenced by strong revenues in the first half of the year. Especially in the second quarter, the core market of Germany was stimulated by powerful pull-forward effects resulting from the unscheduled reduction in photovoltaic subsidies, to take effect halfway through the year. The Group's total revenues of EUR 364.0 million in the first half were 138.7 percent higher than the corresponding year-ago figure. Because the otherwise customary end-of-year rally did not materialise in the fourth quarter, as a result of lower demand and the unusually early and harsh onset of winter, the revenues of EUR 271.7 million generated in the period from July to December 2010 fell short of the corresponding year-ago figure (July to December 2009: EUR 320.5 million).

At EUR 164.5 million, the Group's international revenues accounted for 25.9 percent of total revenues and were nearly six times higher than the corresponding prior-year figure (EUR 27.6 million). An amount of EUR 119.8 million, representing three quarters of the full year's international revenues, was generated in the second half of 2010. In Germany, on the other hand, the company generated most of its revenues, or 67.8 percent to be exact, in the first half of the year. At EUR 471.2 million, total domestic revenues were 5.8 percent higher than the prior-year figure (PY: EUR 445.4 million).

The revenues contributed by all the international subsidiaries combined accounted for 12.5 percent of the Group's total revenues.

The Components & Systems segment contributed EUR 368.4 million or 58.0 percent of total revenues. The revenues generated in this segment were 23.2 percent higher than the corresponding prior-year figure (EUR 299.0 million). The Power Plants segment contributed EUR 267.2 million or 42.0 percent of total revenues. The revenues generated in this segment were 53.6 percent higher than the prior-year figure of EUR 174.0 million.

In financial year 2010, the Phoenix Solar Group sold modules representing a total capacity of 110.8 MWp in its Power Plants segment and additional modules representing a total capacity of 202.4 MWp in its Components & Systems segment.

### 2.1.3 SITUATION OF ORDERS

As of 31 December 2010, total orders on hand amounted to EUR 158.3 million, as compared to EUR 296.1 million at 31 December 2009. This amount includes EUR 134.9 million worth of orders that have already been filled (PY: EUR 61.8 million). The Power Plants segment accounted for 85.2 percent of total orders on hand. At EUR 71.8 million, domestic business accounted for 45.3 percent of orders on hand. Orders on hand in the international business amounted to EUR 86.5 million, representing 55 percent of total orders, as of 31 December 2010.

The currently low level of orders on hand can be attributed to the debates and uncertainties concerning subsidy programs in various markets, which have caused investors to take a wait-and-see attitude, as well as the reduced level of demand that was clearly evident at the end of 2010.

### 2.1.4 DEVELOPMENT OF KEY ITEMS OF THE INCOME STATEMENT

**Changes in inventory** The change in inventories amounted to EUR 0.2 million in financial year 2010 (PY: EUR -16.9 million). As of 31 December 2010, the item of inventories included two projects in Italy and France (EUR 0.2 million) for which the commencement of construction work had been moved up. The only costs incurred to date are costs of developing the construction site.

**Other operating income** The other operating income of EUR 4.8 million consisted mainly of electricity income (EUR 1.3 million), income from the reversal of provisions (EUR 1.5 million) and a value-added tax



refund for a permanent business establishment (EUR 1.1 million). The other operating income for 2010 was EUR 0.9 million higher than the corresponding prior-year figure (EUR 3.9 million).

**Purchased goods and services/gross profit** At EUR 554.4 million, the purchased goods and services were 33.8 percent higher than the prior-year figure (PY: EUR 414.4 million). As a percentage of revenues, purchased goods and services declined from 87.6 percent in 2009 to 87.2 percent in 2010. As a percentage of total operating performance, purchased goods and services declined even more, from 90.8 percent in 2009 to 87.2 percent in 2010. Expressed as a percentage of the Group's total operating performance, the gross profit margin improved from 9.2 percent in 2009 to 12.8 percent in 2010.

An especially positive effect resulted from a temporary adjustment of procurement prices under a long-term supply contract with a module manufacturer, which has been done since financial year 2009 to adapt the prices to reflect current market conditions. The cost of modules purchased from this manufacturer was lowered significantly by means of appropriate supplementary contracts, thereby improving the company's gross profit margin.

**Personnel expenses** The Phoenix Solar Group continued to pursue its long-term growth strategy with firm resolve in financial year 2010; in that connection, the Group continued to invest in the expansion of its personnel capacities. In total, the Group hired 80 new employees, including 19 in its international subsidiaries. That represents a 29.0 percent increase over the workforce as of year-end 2009. As of 31 December 2010, therefore, Phoenix Solar had a total of 356 employees (excluding temporary workers and freelance workers).

As a result of this considerable increase in the Group's workforce, personnel expenses rose by 47.5 percent to EUR 23.6 million (PY: EUR 16.0 million). Consequently, the ratio of personnel expenses to revenues increased from 3.4 percent in the prior year to 3.7 percent in 2010.

The average number of employees (including members of the Executive Board) in 2010 was 313 (PY: 240). Revenues per full-time equivalent (FTE) came to EUR 1,995 thousand in financial year 2010 (PY: EUR 1,974 thousand).

**Depreciation and amortisation** Depreciation and amortisation of intangible assets and property, plant and equipment increased from EUR 0.7 million in 2009 to EUR 1.1 million in 2010. Because the business model of the Phoenix Solar Group entails only a small level of asset intensity, the item of property, plant and equipment consists mainly of operational and office equipment and leasehold improvements in the company's business premises.

**Other operating expenses** At EUR 25.3 million, the other operating expenses were 50.6 percent higher than the corresponding prior-year figure (PY: EUR 16.8 million). This development resulted primarily from the stepped-up international expansion.

The parent company incurred higher costs compared to the prior level, particularly in the areas of recruitment (EUR 0.8 million), expenses for freelance employees (EUR 0.4 million), outward freight (EUR 1.1 million), legal and consulting expenses (EUR 1.1 million) and travel expenses (EUR 0.6 million). The personnel expenses of the subsidiary in the United States amounted to EUR 0.6 million.

**Result from associated companies** Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a 31.2 percent equity interest, has been accounted for at equity as an associated company since financial year 2009. The percentage of this company's profit that accrues to the Phoenix Solar Group amounted to EUR 58.1 thousand in financial year 2010 (PY: EUR 17.8 thousand).

**Financial result** Compared to the prior year (EUR – 1.2 million), the financial result decreased by EUR 1.1 million to EUR – 2.3 million in 2010. Financial income, which consisted mainly of interest income on current accounts and call money deposits, declined from EUR 0.4 million to EUR 0.2 million. The financial expenses of EUR 2.5 million (PY: EUR 1.7 million) consisted mainly of guarantee fees (EUR 0.4 million) and interest expenses on the amounts drawn down from short-term credit facilities (EUR 1.3 million) on the level of the parent company.

**Tax rate** The stated expenses for income taxes for the period from January to December 2010 amounted to EUR 10.0 million (PY: EUR 2.4 million), corresponding to a tax rate of 29.3 percent (PY: 21.8 percent).

**Consolidated profit** As a result of the substantially higher revenues, which were approximately 34 percent higher than the prior-year figure, and the EBIT of EUR 36.4 million, the Group's consolidated profit in 2010 improved to EUR 24.1 million, nearly three times higher than the consolidated profit for 2009 (EUR 8.6 million). Based on the average 7,372,700 shares outstanding in 2010, the basic earnings per share amounted to EUR 3.44 (PY: EUR 1.28). Because no significant diluting factors were in effect as of 31 December 2010, the diluted earnings per share are only slightly different from the basic earnings per share.

#### 2.1.5 DEVELOPMENT OF THE BUSINESS SEGMENTS

**Components & Systems (domestic and international)** As a result of the wintry weather conditions in Germany and in the other core markets of Europe, the Components & Systems segment generated only weak revenues in the early part of the year, as in prior years. By contrast, the second quarter was characterised by booming demand, under the influence of powerful pull-forward effects resulting from the premature reduction in German feed-in remuneration rates, which took effect as of 1 July 2010. Market demand cooled off considerably in the second half of the year, especially in Germany, and the traditional end-of-year rally was rather weak, due to the early onset of winter.

At EUR 368.4 million, the revenues generated by the Components & Systems segment in financial year 2010 rose by 23.2 percent (PY: EUR 299.0 million). Accordingly, the distribution business contributed 58.0 percent of the Group's total revenues (PY: 63.2 percent). At EUR 278.8 million, the revenues generated in Germany were nearly unchanged from the prior year (EUR 280.3 million). Thus, the revenue growth of the Components & Systems segment occurred in the international markets, in which the Group generated revenues of EUR 89.7 million in 2010, as compared to EUR 18.8 million in 2009.

As of 31 December 2010, orders on hand amounted to EUR 23.4 million, as compared to EUR 183.6 million in the prior year. Orders on hand in the international business rose to EUR 6.6 million (PY: EUR 0.4 million). In Germany, on the other hand, orders on hand were still rather low, at EUR 16.8 million (PY: EUR 183.2 million).

**Power Plants (domestic and international)** After a rather weak revenue performance in the prior year, the Power Plants segment increased its revenues by 53.6 percent to EUR 267.2 million in 2010. Thus, the Power Plants segment accounted for 42.0 percent of the Group's total revenues. At EUR 74.8 million, the revenues generated in the international business represented 28.0 percent of total segment revenues, that being considerably higher than the EUR 8.9 million or 5.1 percent of segment revenues generated internationally in 2009. In Germany, the Power Plants segment generated revenues of EUR 192.4 million, representing 72.0 percent of total segment revenues (PY: EUR 165.1 million or 94.9 percent). The development of domestic revenues was held back by the unscheduled reductions in subsidy rates under the German Renewable Energies Act (EEG), which will continue to have an adverse effect on supply and demand in Germany in the future as well.

Including orders which the Group had already begun to execute, orders on hand in the Power Plants segment amounted to EUR 134.9 million as of the reporting date (PY: EUR 112.5 million); excluding orders which the Group had already begun to execute, orders on hand amounted to EUR 19.0 million (PY: EUR 50.7 million). At EUR 55.0 million, orders on hand in the domestic business were lower than in 2009 (EUR 84.3 million); at EUR 79.9 million, orders on hand in the international business were considerably higher than the prior-year figure of EUR 28.2 million.

## 2.2 CASH FLOWS

### **2.2.1 BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT**

The financial policy and financial management system of the Phoenix Solar Group are closely aligned with the Group's growth objectives. The overriding goal of the Group's financial policy is to ensure that the Group disposes of sufficient financial reserves to meet its payment obligations at all times. Preference is given to internal financing, as opposed to borrowing, for the purpose of providing necessary financial resources in a timely and cost-efficient manner. Another key objective is to manage working capital with the highest possible degree of precision.

As a general rule, Phoenix Solar AG conducts the Group's financial management activities on a centralised basis, so as to minimise financing costs and observe the conditions of loan covenants. The financial management system is based on a multi-year financing plan and a rolling three-month liquidity plan, which is updated on a weekly basis. The central Treasury Department is responsible for planning, managing and monitoring financial risks in the interest of protecting the Group's operating performance.

Suitable hedging instruments are employed to hedge against possible exchange rate risks under long-term supply agreements for modules, especially in relation to the Japanese yen and the US dollar. Such hedging activities are always conducted in respect of underlying transactions, never for speculative purposes.

A detailed description of interest rate hedging activities and default risk can be found in Section F, Note (39) of the notes to the consolidated financial statements.

### **2.2.2 FINANCING ANALYSIS**

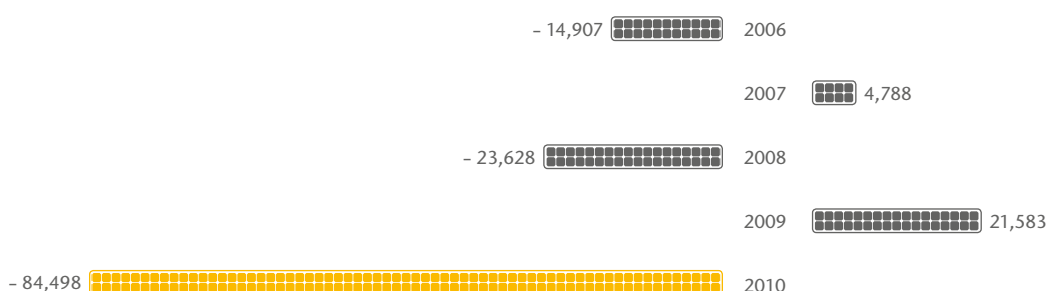
In 2008, the Phoenix Solar Group entered into a syndicated loan agreement for EUR 150 million for the purpose of financing its working capital requirements and to secure greater liquidity protection for the Group. The loan agreement has a term of three years, until 19 November 2011. The credit facility can be utilised in the form of both cash drawdowns and guarantees. The loan agreement entails additional clauses known as covenants, the fulfilment of which is monitored on a continuing basis, as are the main factors influencing the fulfilment of the covenants.

The Group took out another credit facility for EUR 20 million, with a term until 30 June 2011, to provide interim financing for a power plant project.

In addition to the syndicated loan facility, the Group also disposes of additional guarantee lines in the amount of EUR 42.5 million, bringing the total available credit line, excluding the above-mentioned interim financing credit facility, to EUR 192.5 million. Of that total, the Group had utilised an amount of EUR 116.6 million as of year-end 2010. The syndicated credit facility is limited in time until 19 November 2011, while the additional guarantee facilities are in effect until further notice.

At EUR 9.6 million, the cash and cash equivalents of the Phoenix Solar Group as of 31 December 2010 were EUR 14.9 million less than the prior-year-figure (31 December 2009: EUR 24.5 million), whereas current financial liabilities in the amount of EUR five thousand seven hundred rose to EUR 52.6 million. The Group's solvency was assured at all times in the past financial year.

Development of cash flows from operating activities 2006–2010 in k€



### 2.2.3 CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities in financial year 2010 was negative, at EUR –84.5 million (PY: positive cash flow of EUR 21.6 million). This figure includes interest paid and income taxes withheld in the amount of EUR 14.6 million (PY: EUR 6.4 million). This development resulted from changes in working capital, specifically in the area of inventories and receivables, which exerted a pronounced negative effect on the cash flow from operating activities in 2010. Greater liquidity was tied up in the form of heightened start-up costs related to the preparation and construction of larger power plants.

### 2.2.4 CASH FLOW FROM INVESTING ACTIVITIES

At EUR –2.8 million, the cash flow from investing activities was little changed from 2009 (EUR –3.1 million). This figure is mainly composed of customary acquisitions of tangible noncurrent assets such as operational and office equipment, motor vehicles and low-value assets. In addition, the Group continued to invest in intangible assets, including, for example, additional licenses related to the project for introducing an ERP solution (ERP = Enterprise Resource Planning), which was launched in financial year 2009.

### 2.2.5 CASH FLOW FROM FINANCING ACTIVITIES

The cash flow from financing activities of the Phoenix Solar Group was positive in 2010, at EUR 72.5 million, as compared to the negative figure of EUR –1.6 million in 2009. The main factors contributing to this development were the capital increase, which led to net proceeds of EUR 21.1 million, and the borrowing of current financial liabilities in the amount of EUR 52.6 million.

### 2.2.6 CAPITAL EXPENDITURES, DEPRECIATION AND AMORTISATION

Information on the development of noncurrent assets is provided in Chapter D of the notes to the consolidated financial statements, and particularly in the Statement of Changes in Noncurrent Assets presented therein (see Note (15)).

Changes in noncurrent assets for 2010 and prior year

2010	Balance as of 01/01/ k€	Acquisition and production costs			Balance as of 31/12/ k€
		Acquisitions in the financial year k€	Disposals in the financial year k€	Currency translation k€	
Internally generated intangible assets	29	0	0	0	29
Intangible assets	2,887	1,747	0	0	4,634
Goodwill	533	0	0	0	533
Property, plant and equipment	4,157	1,141	159	11	5,150
<b>Total noncurrent assets</b>	<b>7,606</b>	<b>2,888</b>	<b>159</b>	<b>11</b>	<b>10,346</b>

2009	Balance as of 01/01/ k€	Acquisition and production costs			Balance as of 31/12/ k€
		Acquisitions in the financial year k€	Disposals in the financial year k€	Currency translation k€	
Internally generated intangible assets	29	0	0	0	29
Intangible assets	1,161	1,739	13	0	4,634
Goodwill	533	0	0	0	533
Property, plant and equipment	2,642	1,518	8	5	4,157
<b>Total noncurrent assets</b>	<b>4,365</b>	<b>3,257</b>	<b>21</b>	<b>5</b>	<b>7,606</b>

## 2.3 FINANCIAL POSITION

### 2.3.1 STRUCTURE OF ASSETS AND CAPITAL

As of 31 December 2010, the total assets of the Phoenix Solar Group amounted to EUR 313.3 million, indicative of a substantial increase of almost 72 percent, or EUR 131.1 million, over the corresponding figure as of 31 December 2009 (EUR 182.2 million).

At EUR 10.9 million, noncurrent assets were slightly higher, by EUR 1.6 million, than the prior-year figure, mainly due to acquisitions of intangible assets (EUR 1.4 million) and property, plant and equipment (EUR 0.4 million).

Current assets rose by EUR 129.5 million to EUR 302.4 million. This increase occurred primarily in the item of inventories, which rose by EUR 80.4 million to EUR 149.5 million, due to project delays into the year 2011 and the early onset of winter in the core market of Germany. Necessary value adjustments were charged against inventories to account for the expected lower sales proceeds. Receivables due from customers (receivables under long-term construction contracts and trade receivables) rose from EUR 65.6 million as of year-end 2009 to EUR 113.4 million as of year-end 2010, due to the strong revenue growth experienced in 2010. In addition, the category of other assets (financial and non-financial) rose by EUR 16.7 million to EUR 24.8 million. Significant decreases occurred only in the category of cash and cash equivalents, which declined by EUR 14.9 million to EUR 9.6 million.

As of 31 December 2010, the equity of the Phoenix Solar Group amounted to EUR 142.4 million, indicative of an increase of EUR 45.1 million over the corresponding figure as of year-end 2009 (EUR 97.3 million). This increase resulted in part from the consolidated profit for the year in the amount of EUR 24.1 million and in part from the capital increase conducted in mid-July under partial utilisation of the

Authorised Capital 2010, which raised gross issue proceeds of EUR 21.4 million. In consideration of the now substantially higher amount of total assets, the equity ratio as of 31 December 2010 was 45.5 per cent (31 December 2009: 53.4 per cent).

The increase in debt capital from EUR 85.0 million to EUR 170.9 million resulted primarily from the development of current financial liabilities, which amounted to EUR 52.6 million as of 31 December 2010 (31 December 2009: EUR 5.7 thousand). Of that amount, EUR 52.6 million consisted of liabilities due to banks, which serve the purpose of financing working capital. Other items experiencing significant increases were trade payables, which rose by EUR 32.8 million to EUR 84.5 million, due to the heightened level of construction activity under power plant projects at the end of the year. Tax liabilities, on the other hand, declined by EUR 3.3 million to EUR 6.3 million.

#### Concise cash flow statement for 2010 and prior years

	2010 k€	2009 k€	2008 k€	2007 k€	2006 k€
Consolidated profit/loss before income taxes	34,148	10,934	33,446	21,572	4,972
Cash flow from operating activities	- 84,498	21,583	- 23,628	4,789	- 14,907
Cash flow from investing activities	- 2,832	- 3,064	- 2,459	- 1,537	- 1,016
Cash flow from financing activities	72,457	- 1,593	19,620	- 420	7,022
Net change in cash and cash equivalents	- 14,873	16,926	- 6,465	2,831	- 8,900

#### Concise statement of financial position for 2010 and prior years

	2010		2009		2008		2007		2006	
	k€	%	k€	%	k€	%	k€	%	k€	%
<b>Assets</b>										
Noncurrent assets	11,762	3.8	9,346	5.1	5,333	4.2	5,331	6.9	3,145	5.8
Current assets	301,529	96.2	172,886	94.9	122,43	95.8	71,771	93.1	50,864	94.2
<b>Total assets</b>	<b>313,291</b>	<b>100.0</b>	<b>182,232</b>	<b>100.0</b>	<b>127,763</b>	<b>100.0</b>	<b>77,102</b>	<b>100.0</b>	<b>54,009</b>	<b>100.0</b>
<b>Equity and liabilities</b>										
Equity	142,429	45.5	97,264	53.4	89,311	69.9	47,326	61.4	33,346	61.7
Noncurrent liabilities and provisions	5,346	1.7	3,083	1.7	2,307	1.8	4,089	5.3	758	1.4
Current liabilities and provisions	165,516	52.8	81,885	44.9	36,145	28.3	25,687	33.3	19,905	36.9
<b>Total equity and liabilities</b>	<b>313,291</b>	<b>100.0</b>	<b>182,232</b>	<b>100.0</b>	<b>127,763</b>	<b>100.0</b>	<b>77,102</b>	<b>100.0</b>	<b>54,009</b>	<b>100.0</b>

The solid liquidity of Phoenix Solar AG was also confirmed externally by the ratings agency Credit Risk Monitor Inc., New York, which assesses the company's credit quality on a continuing basis. In connection with its assessments, this agency has consistently given Phoenix Solar its highest score of 10 since April 2010. That means, the probability of insolvency on the part of Phoenix Solar AG is not higher than 0.11 percent over a twelve-month period.

#### 2.3.2 ASSETS NOT RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION AND OFF-BALANCE SHEET FINANCING INSTRUMENTS

The company has no off-balance sheet financing instruments.

#### 2.3.3 NOTES ON COMPANY ACQUISITIONS

No companies were acquired in financial year 2010.

### 3 EMPLOYEES

Again in 2010, our employees made an invaluable contribution to the growth and successful conduct of our business. We consider our employees to be a crucial success factor amid an increasingly complex market environment. Employee satisfaction, entrepreneurial spirit and identification with Phoenix Solar as an employer are extremely important to us; therefore, those attributes form the basis for all our employee programs, now and in the future.

Despite the considerably stiffer competition in the labour market, Phoenix Solar successfully expanded its workforce again in 2010, so as to accommodate the growing volume of business. As of 31 December 2010, the Phoenix Solar Group had a total of 356 employees (excluding freelance workers and temporary workers), 80 more than at the end of 2009. In Germany, the company hired 61 new employees (members of the Executive Board, permanent employees and temporary workers) and our international subsidiaries added a total of 19 employees. Thus, the Group's international workforce increased by 49 percent, considerably higher than the increase within Germany (26 percent). This development resulted in part from the fact that the Group's existing international subsidiaries expanded their business further and also in part from the formation of new companies outside of Germany. Also in financial year 2011, we intend to recruit more employees internationally, in order to press forward with the Group's internationalisation plans.

#### 3.1 VOCATIONAL TRAINING AND CONTINUING EDUCATION

The sustained increase in the Group's workforce requires forward-looking personnel planning. For that reason, we further increased the number of vocational training positions available within the company in 2010. Thus, Phoenix Solar provided vocational training to nine young people in five different vocations in 2010 (PY: six). All vocational trainees were offered and accepted permanent positions with the company upon completion of their vocational training programs. In addition, we offered a large number of internships and master's degree thesis topics for university students and further intensified our university marketing activities.

Aside from the vocational training provided to young people, Phoenix Solar also places a high priority on the continuing education of its experienced employees and managers. Phoenix Solar offers them the opportunity to further develop their professional and personal capabilities. To that end, our employees can make use of a wide range of internal training courses, as well as external continuing education facilities and coaching programs, depending on their respective goals. The Phoenix Competence Centre, which coordinates professional employee development in close consultation with the managers of all departments, plays a crucial role. The Phoenix Competence Centre also develops suitable continuing education programs and provides advice and support in matters of training contents and methodology. In addition, Phoenix Solar launched a Groupwide knowledge management program in 2010, so as to secure specialised expertise and conceptually process it for dissemination within the company.

#### 3.2 CORPORATE CULTURE AND PERSONNEL STRATEGY

The corporate culture of Phoenix Solar is rooted in the tremendous dedication of every employee, the style of personal interaction with each other and the diversity of our employees. In 2010, we had employees from more than 20 nations, from all age groups and from a wide range of different backgrounds. As of 31 December 2010, women accounted for 33 percent of the company's workforce and more than 20 percent of the company's managers. Despite the massive growth of the last few years and constantly changing organisational structures, we have successfully preserved the "Phoenix spirit" and quickly integrated the large number of new employees. The Phoenix Competence Centre has played



a crucial role in those efforts. To ensure the continuation of this success in the future, Phoenix Solar aligned its personnel strategy even more closely with its business strategy in 2010. In the future, even greater emphasis will be placed on employee-centred issues at Phoenix Solar. Our goal for the coming years is to make our company one of the most attractive employers in the photovoltaic industry. We intend to achieve that goal by means of the following steps, among others:

- Treating all employees with openness and respect;
- Providing interesting and challenging work activities;
- Identifying development potential and actively supporting career advancement steps;
- Paying compensation that is competitive in the market and geared to the employee's performance; and
- Supporting change processes in a transparent and proactive manner.

The Executive Board of Phoenix Solar AG wishes to thank all employees for their hard work and tremendous dedication in 2010.

## 4 ENVIRONMENTAL PROTECTION AND SOCIAL ENGAGEMENT

The Phoenix Solar Group strives for sustainable business development in its international activities. Thus, we accept responsibility for the company and its employees, shareholders and customers. Sustainable management practices help us avoid risks and take advantage of opportunities in the development of our business. By that means, we seek to create competitive advantages and secure the long-term success of Phoenix Solar. We respect international human rights as a company and employer. We always seek to protect the environment, as our most precious resource.

### 4.1 PRODUCTS, SERVICES AND SUPPLIER RELATIONSHIPS

Throughout the world, the Phoenix Solar Group distributes only products, the use of which contributes to climate and environmental protection. Photovoltaic systems generate electrical energy from sunlight. They are virtually silent and do not emit pollutants. Thus, no carbon dioxide (CO<sub>2</sub>) is released into the environment from the operation of a photovoltaic plant. Therefore, photovoltaic systems are an important element of an energy mix that is geared to the reduction of CO<sub>2</sub> emissions. Solar power systems generate enough energy to compensate for the energy required to manufacture them in three to five years of operation, depending on the module technology employed; after that, they produce a positive energy footprint. Based on the current standard, photovoltaic plants can be expected to operate for more than 30 years.

In building large-scale photovoltaic power plants, the Phoenix Solar Group fulfils and monitors all nature and environmental protection requirements set forth in the land-use plans. In fact, the Group over-fulfils environmental standards. For example, the assembly frame used to build solar field systems does not require a cement foundation. Consequently, no land is sealed over and it can be used for other purposes once the plant has been completely dismantled, leaving no residues. We observe the building standards of the Nature and Biodiversity Conservation Union in Germany (NABU) and the German Solar Industry Association (BSW).

The Power Plants segment of Phoenix Solar AG was certified under DIN EN ISO 9001:2008 (Quality Management System) and DIN EN ISO 14001:2005 (Environmental Management System) for the first time in December 2009. Thus, Phoenix Solar meets the highest industry standard. Furthermore, we extended, upgraded and optimised our processes during the course of financial year 2010. The annual follow-up

audit was conducted both internally and externally, by an outside monitoring institution. The audit demonstrated that the relevant standards have been implemented and are effective in the company's power plant building activities. In connection with the "Health Safety Environment Procedures" for international projects, Phoenix Solar plans to expand its management system and introduce the international standard OHSAS 18001 (Occupational Health and Safety Assessment Series) in 2011. In addition, sub-contractors that perform construction work for Phoenix Solar AG must also prove that they employ a quality assurance process and appropriate occupational health and safety measures.

Suppliers with which the company maintains long-term cooperation relationships are selected on the basis of criteria that go beyond product quality to also include the manufacturing process, working conditions and corporate governance. When module shortages arise, however, it is not always possible to enforce all the criteria. Supply paths and delivery intervals are analysed also from the perspective of reducing CO<sub>2</sub> emissions. Nearly all the module manufacturers with which Phoenix Solar collaborates either participate in professional take-back programs for photovoltaic modules (PV CYCLE) or have instituted their own take-back programs. These programs guarantee the acceptance of used products even if the manufacturer would no longer be in business.

Accessories for the complete systems of Phoenix Solar are pre-manufactured in two workshops that employ severely handicapped persons in the areas of Dachau and Fürstfeldbruck.

#### 4.2 INTERNAL ENVIRONMENTAL PERFORMANCE

The Phoenix Solar Group places the highest priority on the responsible and sustainable use of energy and raw materials in its day-to-day business. At all the company's operating locations, garbage is sorted on the basis of strict criteria, with most of it sent for recycling. But even greater care is taken to avoid waste in the first place.

At the German locations in Sulzemoos and Ulm, where 270 employees worked in 2010, electricity for the company's own use is purchased from a certified eco-electricity vendor. At least 90 percent of this supplier's electricity mix is generated from renewable energies and no more than 10 percent derives from highly efficient, natural gas-powered co-generation plants. All of the company's offices are equipped with modern, energy-efficient equipment. The power supply to all office equipment can be shut off from a central control panel, so as to avoid unnecessary stand-by power consumption at night and on the weekend.

The Sulzemoos location consumed roughly 180,000 kilowatt-hours of energy in financial year 2010. As the number of employees continues to grow, the company's energy consumption can be expected to increase as well. However, Phoenix Solar is continually implementing new measures to keep the energy consumption per person to the lowest possible level. The environmental performance indicators will be measured and analysed on an annual basis in the future.

The building in Sulzemoos has been heated by means of a wood chip-fuelled thermal power plant since March 2007. In 2009, moreover, the company put into service an air conditioning system that draws its cooling energy from existing ground wells at the location, which cannot be used for any other purpose.

The company uses environmentally compatible building materials, for the most part, in new construction and renovations of its office buildings. The materials used must be certifiably environmentally compatible and meet ecological criteria. For example, the lumber used for such purposes must be purchased from sustainable local forestry companies. The insulation used inside the buildings is made of cellulose fibres or flax.

The Groupwide motor vehicle fleet is required to meet guidelines relative to cylinder capacity, fuel consumption and CO<sub>2</sub> emissions. In addition, the company's drivers are trained to reduce fuel consumption. Phoenix Solar fared very well in a nationwide comparison of the CO<sub>2</sub> emissions of company car fleets conducted by the environmental aid association Deutsche Umwelthilfe. In a comparison of the company cars driven by Chief Executive Officers, Phoenix Solar AG had the most environmentally friendly car in 2010. We plan to add more electric cars to our existing motor vehicle fleet. A charging station available to both employees and guests was put into service on the company's grounds in December 2010. A first electric car was delivered in January 2011, to be used as a pool car. The company plans to purchase additional electric cars during the course of 2011.

Phoenix Solar also takes steps to reduce its paper consumption. In addition, we apply great care in selecting the paper we use in all our printed materials, including the annual report and our catalogues, for example. Paper manufacturers must bear the seal of the Forest Stewardship Council (FSC). This seal is a reliable sign that the paper was produced in accordance with responsible forestry practices. It must be demonstrated, moreover, that the paper products were not mixed with non-certified, untraceable wood or paper at any stage of the processing and distribution chain.

Aside from paper quality, Phoenix Solar also places demands on the environmental compatibility of the printing process. After conducting a tender procedure, the company selected a new printing company in 2010, one that is both FSC-certified and capable of producing print products in a climate-neutral manner; furthermore, it conducts its operations in a manner that is demonstrably environmentally friendly. Since that time, Phoenix Solar has placed nearly all its printing orders with this company. In addition, Phoenix Solar procures most of its basic office supplies from an ecologically oriented distributor.

#### 4.3 SOCIAL ENGAGEMENT

The environment, renewable energies and photovoltaics are the focal points of the social engagement activities of Phoenix Solar AG. Through our donations, we mainly support organisations that aid children and young people in the regions of Fürstfeldbruck and Dachau. In addition to the financial assistance we provide to youth athletic associations, we also support projects like the "Youth Mobile" of the Dachau Kreisjugendring and the nationwide educational project "Haus der kleinen Forscher", the aim of which is to teach science and technology to pre-school children in a playful, hands-on manner. Furthermore, Phoenix Solar has supported the Mekaela Academies in Kenya by donating a photovoltaic system with a capacity of 20 kWp, which supplies the Lulu High School and its dormitory with environmentally friendly electricity.

Phoenix Solar AG plans to publish its first Environmental and Social Report in financial year 2011.

## 5 GENERAL ASSESSMENT OF THE CURRENT ECONOMIC SITUATION

### 5.1 MANAGEMENT'S ASSESSMENT OF THE ECONOMIC SITUATION

The situation in the German market, which is still our most important sales market, deteriorated markedly over the course of 2010. After an unusually strong second quarter, the unscheduled reductions in feed-in rates that took effect as of 1 July and then again as of 1 October 2010 caused the market to slow down considerably in the second half of the year. As a result, industry analysts again downgraded their forecasts of new photovoltaic capacities to be installed during the year 2010. Those estimates are currently around 7 GWp, which would nonetheless represent a doubling of new installed capacity compared to 2009.

Despite the difficult market conditions, the Phoenix Solar Group performed very well in 2011, posting new record values in its key performance indicators. Both business segments contributed to the Group's positive development, laying a strong foundation for future growth. Phoenix Solar also laid the ground-work for the planned further international expansion of its business by forming subsidiaries in Malaysia and the United States.

As expected, the Group's business development has been restrained in the first two months of the current year, as the demand for building photovoltaic plants is traditionally subdued in the winter months. As the wintry conditions subside, we expect the demand for photovoltaic systems to pick up considerably around the start of the second quarter 2011.

## 5.2 ESTIMATE-SENSITIVE ACCOUNTING METHODS

Certain estimates and assumptions need to be made for the purpose of presenting the company's financial position, cash flows and results of operations on the basis of IAS/IFRS financial reporting standards. Such estimates and assumptions are made to the best of our knowledge and belief, so as to present the most realistic view of the economic situation of Phoenix Solar AG as of the reporting date.

Estimates and assumptions that can be especially relevant to the financial position, cash flows and results of operations of Phoenix Solar AG relate to the following matters, in particular:

- Stage of completion and total costs in connection with the percentage-of-completion method;
- Saleability of module inventories;
- Deferred tax assets to be recognised in respect of tax loss carry-forwards;
- Necessity of recognising impairment losses (estimation of expected sale proceeds in 2011);
- Measurement of financial instruments;
- Recognition and measurement of provisions and/or contingent liabilities.

More detailed information on the legislative environment and the possible effects on the presentation of the Group's financial position, cash flows and results of operations can be found in Section A, Note (2) of the notes to the consolidated financial statements.

## 6 EVENTS AFTER THE REPORTING DATE

### 6.1 IMPORTANT EVENTS AFTER THE REPORTING DATE

In a press conference held on 20 January 2011, the German Federal Minister for the Environment, Dr. Norbert Röttgen, and the President of the German Solar Industry Association, Günther Cramer, announced an accelerated reduction in the photovoltaic subsidy rates under the German Renewable Energies Act (EEG), to take effect as of 1 July 2011. This reduction, which had originally been planned for the beginning of 2012, can be anywhere from 3 to 15 percent, depending on the level of market growth in the period from March to May 2011. If the full-year estimate for 2011 points to market growth of less than 3.5 GWp, however, the next adjustment of subsidy rates will take place as of the originally planned date of 1 January 2012.

On 14 February 2011, Phoenix Solar announced that its subsidiary in Oman, Phoenix Solar L.L.C., will build a solar park with a peak capacity of 3.5 MW for Saudi Arabian Oil Company (Saudi Aramco). The new solar park, to be located close to the Saudi Arabian capital of Riyadh, is expected to be completed by the end of September 2011.

## 6.2 POSSIBLE EFFECTS OF THESE EVENTS ON THE RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION OF THE GROUP

At the time of the present Annual Report, the computation basis for the accelerated reduction in photovoltaic subsidy rates cannot be estimated reliably. At this early stage, therefore, the effects of the accelerated reduction on the results of operations, cash flows and financial position of the Phoenix Solar Group cannot be quantified reliably. Nonetheless, the company has carefully studied the associated opportunities and risks and resolved to step up considerably the expansion of its international business, also in the current financial year 2011. By that means, the Group will seek to make its business even less dependent on the German market.

The activities of the subsidiary Phoenix Solar L.L.C. in Saudi Arabia are integrally related to the Group's business strategy and are proceeding according to plan.

## 7 REPORT ON OPPORTUNITIES AND RISKS

### 7.1 MANAGEMENT OF OPPORTUNITIES AND RISKS

#### **7.1.1 POLICY ON OPPORTUNITIES AND RISKS**

The goal of our policy on opportunities and risks is to assure the continued operation of the Phoenix Solar Group as a going concern and to systematically and sustainably increase the company's value. In accordance with these basic principles, business decisions are always made only on the basis of a detailed analysis and assessment of the associated risks. Because all business activity necessarily entails opportunities and risks, the Group's risk strategy covers both elements. In the areas of our core competence, therefore, we consciously take on manageable, assessable risks when the income to be generated by assuming such risks is appropriate. We avoid risks in all other areas, as a matter of principle.

#### **7.1.2 RISK AND OPPORTUNITY MANAGEMENT SYSTEM**

The Group's risk and opportunity management system is designed to identify individual risks, present them in a transparent manner and determine ways of managing them appropriately. Aside from risks that would endanger the company's continued operation as a going concern, we also monitor those activities, events and developments that could have a significant influence on the Group's future business success. The corresponding goals and procedures and the division of responsibilities within the risk management system are documented in the Risk Management Handbook of Phoenix Solar AG.

In connection with the strategy process, we analyse the company's strengths and weaknesses within the market environment, also by means of benchmark analysis, and identify ways of exploiting optimisation potential and sales opportunities. For more information on this subject, please refer to our comments in Section 1.2 "Management, Goals, Strategy" and in Section 8.7 "Opportunities in the Business Segments". In that regard, we are guided by the goal of simplifying our processes, so as to achieve better results more quickly and efficiently. We employ an instrument known as the "balanced scorecard" for the purpose of managing and evaluating the measures taken to exploit opportunities. We employ the same instrument for the purpose of recognising undesired developments in the implementation of the Group's business strategy, as a means of detecting risks at an early stage.

Using a standardised risk inventory, a defined group of employees with bearing responsibility for risks in interface functions reports all existing risks, newly detected risks and potential risks to the Risk Manager on a regular basis. Each such risk is classified according to the criteria “probability of occurrence”, “potential loss amount” and “ability to influence”. The Risk Manager analyses, assesses and documents all such risks at regular intervals of time and keeps both the Risk Officers and the Executive Board informed. The Risk Officers review the risk assessment and adopt appropriate counter-measures. The Risk Manager then communicates these measures to all relevant organisational units and to the persons bearing responsibility for risks.

Insurance policies are maintained, to the extent they are available and economically tenable, to minimise the financial repercussions of a potential loss. The extent and amount of such insurance policies are reviewed on a regular basis.

### **7.1.3 INTERNAL CONTROL AND MANAGEMENT SYSTEM RELATIVE TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS**

Our internal control and risk management system relative to the (consolidated) financial reporting process is designed to ensure that the Group’s accounting system is uniform and conformant with applicable laws and regulations, German generally accepted accounting principles und International Financial Reporting Standards (IFRS). The objective of this control system is to provide reasonable assurance that the consolidated financial statements are prepared correctly, in conformity with all applicable laws, regulations and guidelines. That goal is achieved by means of various control and review mechanisms, including plausibility checks and the strict application of the dual control principle on all levels of the company.

The task of the internal control system is to identify key risks and monitor the measures implemented to counteract them. To that end, key elements such as process descriptions, job descriptions and alternate representation arrangements are reviewed by different entities, including the internal audit function, to verify that they are complete and up-to-date, using a risk control matrix for that purpose.

In addition to automated system controls, we also conduct manual controls and analytical audit activities, with due consideration given to the respective control environment and the relevance of the given accounting matters to the information provided in the financial statements.

The process of preparing the consolidated financial statements is based on uniform, Groupwide accounting policies. The Group companies first prepare their separate financial statements in accordance with the national laws and regulations applicable to them; they then convert their local financial statements to what are called the “Commercial Financial Statements II”, drawn up in accordance with IFRS, and submit the corresponding data to Corporate Accounting in a uniform, predefined format (“reporting package”). Corporate Accounting uses this data to perform the consolidation measures. Group companies are required to observe Groupwide accounting policies and are responsible for the adequate and timely conduct of their accounting-related processes and systems. Corporate Accounting supports the Group companies throughout the entire accounting process.

## **7.2 REPORT ON RISKS RELATED TO FINANCIAL INSTRUMENTS**

A detailed description of the risks related to financial instruments is provided in Section F, Note (39) of the notes to the consolidated financial statements.

## 7.3 SIGNIFICANT RISK AREAS

### **7.3.1 INTERNATIONAL EXPANSION**

Phoenix Solar AG takes advantage of opportunities to establish a foothold in international markets, also through its worldwide network of subsidiaries, in order to achieve its growth goals by generating a higher proportion of its business in international markets.

The further expansion of the Phoenix Solar Group, including project development and the construction of photovoltaic power plants in foreign countries in particular, entails considerably higher risks than those associated with the Group's business in Germany. Such risks relate primarily to development expenses and times and to the completion of photovoltaic power plants. Especially in the case of increased activities in new markets, therefore, project delays and cost overruns compared to the original, deliberately conservative plans cannot be ruled out.

In addition, the formation of new subsidiaries in foreign countries heightens the need for local managers. That necessarily entails longer integration and acclimatisation times, during which optimal effectiveness still needs to be developed. Furthermore, an expansion of the company's business into countries beyond the European Union entails considerably higher risks arising from legal and political aspects. Generally speaking, there is also a risk that the potential of foreign markets could be misjudged, with the result that the company would become involved in foreign markets with very little potential. Such risks are difficult to assess and can lead to unforeseen cost burdens.

### **7.3.2 POLITICAL FACTORS**

The condition and development of national photovoltaic markets are promoted or impeded to varying degrees by the laws and regulations in force. In the case of laws designed to create long-term economies of scale, such as the German Renewable Energies Act, every reduction in feed-in remuneration rates that cannot be offset by lower-cost procurement prices or lower sales prices lowers the achievable return of new photovoltaic plants, which reduces the attractiveness of such plants for potential buyers. Radical changes in the legislative framework could restrict further market growth or even cause markets to contract, which would endanger the continued operation of the company as a going concern. In order to mitigate the risks associated with dependencies on individual markets, Phoenix Solar AG systematically pursues a strategy of internationalisation. By that means, the company also counters the risks associated with the ongoing debate concerning further cut-backs under the German Renewable Energies Act, which can be expected to have adverse effects on the development of the German market, which is still the most important market for Phoenix Solar AG.

### **7.3.3 MARKET, COMPETITION AND EXTERNAL FACTORS**

Global population growth and the rising demand for energy in emerging-markets and developing countries are leading to higher global energy demand. That trend, coupled with the projected scarcity of fossil fuels, will cause the price of fossil fuels to rise, creating a situation that is conducive to the expanded use of regenerative energy sources, which is an important opportunity for solar industry companies like Phoenix Solar AG.

A favourable effect can be expected to result from the continuous reduction of the costs of generating solar power, to be achieved through technical innovations in modules and components and through the exploitation of purchasing advantages arising from the bundling of procurement volumes within the Group.

Rising interest rates reduce the return of photovoltaic plants, which tend to be financed through borrowing to a considerable extent. If interest rates remain high for a longer period of time, that could dampen investors' interest in financing photovoltaic power plants.



Another factor affecting the availability of credit to finance photovoltaic power plants is the more restrictive lending practices of banks, which have become more risk-averse. This trend is causing considerable delays, in some cases, in the execution of planned projects. It can also be expected, moreover, that the process of finding suitable investors will become more difficult and time-consuming. If the financing promised to investors in photovoltaic power plants cannot be verified in accordance with plan, Phoenix Solar reserves the right to keep the corresponding power plants temporarily in its own portfolio and sell them to other investors, in consideration of all possible consequences.

If lengthier delays would occur in the process of selling large photovoltaic plants, leading to delayed cash flows, that could pose a risk to the liquidity management efforts of Phoenix Solar AG. The Group counters such risks by means of active working capital management and by employing funds from bridge financing facilities.

The strong expansion of the Group's business engenders high capital needs. The Phoenix Solar Group conducts rigorous liquidity controlling to limit the risk of liquidity shortfalls that could result from variations in future cash flows. To secure the Group's medium-term financing needs, moreover, Phoenix Solar took out a syndicated credit facility with a term of three years in financial year 2008. If the covenants associated with this loan are not fulfilled, the lending syndicate would be entitled to cancel the credit facility. The term of the existing loan agreement expires in November 2011. Negotiations on renewing the syndicated loan were begun in February 2011. As part of those negotiations, the Group is seeking to integrate the US subsidiary into its financing structure. If, contrary to expectations, the syndicated loan cannot be renewed by the end of November 2011, the Group's business strategy would have to be adjusted or the need for liquidity satisfied by alternative financing instruments.

#### 7.3.4 PROCUREMENT

Due to the considerable lead times in production and the long delivery routes, especially for modules and inverters, procurement decisions need to be made at an early stage. However, the inherent volatility of the Group's sales markets, which is exacerbated in some cases by persistent political debates concerning changes to feed-in remuneration rates, makes it considerably more difficult to plan purchases of necessary goods at the exact time they will be needed. If errors of judgment are made in this process, therefore, the Group could end up with insufficient inventories or excessively high inventories. For that reason, the trend of weakening demand, especially in the German market as a result of the anticipated changes under the German Renewable Energies Act as of mid-2011, which would lead to lower remuneration rates, poses the risk of higher inventories.

In addition, the higher level of inventories presented in the consolidated financial statements of the Phoenix Solar Group as of 31 December 2010 poses a potential risk for financial year 2011. In consideration of the weak demand conditions that are normally in effect at the beginning of the year, resulting in a low level of new orders, the Group cannot expect to reduce these inventories quickly. Furthermore, both the general market trend and the trend of module prices are currently difficult to predict. If prices would decline suddenly and quickly, Phoenix Solar would be compelled to charge appropriate value adjustments against its inventories, in order to offer its products at market prices. Such a development would have negative effects on the Group's cash flows, financial position and results of operations.

To secure an appropriate supply of modules, Phoenix Solar has maintained a long-term supply contract with a module manufacturer for many years. If the parent company would be obligated under that contract to meet minimum purchase obligations at below-market prices, without being able to resell the delivered components at prices higher than its own procurement costs, that would have a substantially negative effect on the results of operations, cash flows and financial position of the Group. Furthermore, if the Group's contract partners would prove to be insufficiently flexible in renegotiating long-term con-

tracts, the existing module supply contracts could become so onerous for Phoenix Solar that it would have to recognise provisions for that purpose.

### **7.3.5 LEGAL AND TAX ASPECTS**

In the fourth quarter of 2009, the competent tax authorities began to conduct a routine tax audit of Phoenix Solar AG for the period from 2005 to 2008. This tax audit, which is still being conducted, could lead to financial risks for the Group.

### **7.3.6 BUSINESS STRATEGY RISKS**

The constantly growing competition by module manufacturers and energy utilities in the power plant business poses the risk that Phoenix Solar would only be able to offer partial services in this area or that it would be pushed out of the market, in full or in part, thereby eliminating part of the company's value chain. Such a development could also pose a sales risk for modules, especially in the case of modules purchased under long-term supply contracts. Due to uncertainties in the market, moreover, customer demand could decline markedly or customers could cancel their orders to a greater extent.

Continued strong market growth in Germany could lead to calls already in the near future to modify or even eliminate the German subsidy system for photovoltaic power plants. In view of the importance of the German market for the entire industry and particularly for the Phoenix Solar Group, the international revenues of which are still relatively low, such a development could pose a great risk.

### **7.3.7 BUSINESS GROWTH**

The rapid growth of our Group associated with increased business volumes poses greater demands on the Group's financing and organisational structure, specifically with regard to centralised administrative functions. Because it is not always possible to expand appropriate administrative resources at the same rate as the company's operational growth, temporary organisational risks cannot be completely ruled out.

Phoenix Solar counters such risks by means of conceptual process management and internal control mechanisms. The internal audit function is exercised by an independent corporate staff department within the Executive Board division of finance. The audits conducted by internal audit are meant to verify the effectiveness of the internal control system (ICS). Aside from its past-directed audit activities, the internal audit function also performs an advisory and precedent-setting role, in that it also assesses the usefulness of the company's processes.

The vital processes of the entire Group (including its subsidiaries) are highly dependent on the reliability of IT systems. Because data security is a constant issue, the Group continuously reviews, updates and further develops its IT infrastructure. The introduction of a new ERP system during the course of financial year 2011 will help to link all the Group's divisions and functions more closely together and further optimise information processing.

In order to achieve the growth objectives of the Phoenix Solar Group, the successful recruitment of qualified employees at all the company's locations will continue to be a matter of fundamental importance in the future as well. As an increasing proportion of the Group's business is shifted away from the German core market to international markets, there is a heightened need for qualified employees at all the Group's international locations. Thus, successful recruitment is vitally important to the achievement of the Group's growth objectives. If the Group encounters setbacks in that area, that could have negative consequences for achieving the Group's objectives.

#### 7.4 GENERAL ASSESSMENT OF THE GROUP'S RISK SITUATION

The general assessment of the above-mentioned risk areas leads to the conclusion that the Group is mainly exposed to market risks, risks related to its dependency on political developments and risks related to the development of prices and business quantities, both on the procurement side and the sales side. By comparison, the risks associated with internal production processes are considerably less important. The general risk situation of the Phoenix Solar Group continues to be limited and manageable, although the fact that the future development of market prices for photovoltaic modules and systems cannot be reliably estimated at the present time could increase the risk potential considerably. Based on the information currently available to the company, no risks that could endanger the continued operation of the Phoenix Group as a going concern, either individually or in combination with each other, can be identified at the present time.

## 8 FORECAST REPORT

### 8.1 FUTURE STRATEGIC ORIENTATION OF THE GROUP

The business model of the Phoenix Solar Group, which is rooted in the two segments of Components & Systems and Power Plants, has proven to be successful also in times of financial and economic crisis. Therefore, this focus will characterise the Group's strategic orientation in the future as well. Phoenix Solar monitors and further develops its positioning in these two segments on a continuous basis, in the context of both strategy development and business performance. Examples of such measures include products developed specifically for the purpose of exploiting the self-consumption regulation under the German Renewable Energies Act and the products and services developed in connection with the market introduction of electric cars, for which photovoltaic solutions are ideally suited as a decentralised and CO<sub>2</sub>-free energy source.

The overriding objective pursued by every further development of our business model, as well as in our research and development activities, is to lower the costs of solar power systems. Long-term success in the energy market absolutely depends on the ability of the photovoltaic industry to lower costs at every stage of the value chain. As the cost of photovoltaic electricity continues to fall, photovoltaic power plants approach the point of being economical. A study conducted by the management consulting firm A.T. Kearney, which was commissioned by Phoenix Solar, demonstrated that it will be possible to generate solar power (with due consideration given to the true value of photovoltaic electricity) on a competitive basis compared to electricity generated from natural gas-fired and coal-fired power plants already in five to eight years. Therefore, it is our goal to continually improve the economic efficiency of photovoltaic power plants.

Aside from lowering the cost of photovoltaic electricity, the Phoenix Solar Group also places a high priority on internationalising its business. In addition to the subsidiaries that have already been established in Europe, the United States, Asia, Australia and the Middle East, the Group intends to expand into other attractive international markets. For the year 2010, Phoenix Solar has set itself the goal of increasing the percentage of total revenues generated in its international markets to 65 percent. At the present time, we see attractive markets in the countries of Great Britain, Canada, India, Malaysia and Thailand. Another motivation for tapping new sales markets relates to the growing uncertainties in some of the Group's existing markets, including Spain and the Czech Republic, where the local markets could possibly grind to a halt. We will also seek to meet the challenges of our markets by developing product

innovations. With regard to solar modules and inverters, the Phoenix Solar Group already disposes of a broad-based product portfolio. The further development of Phoenix's own products, such as assembly dollies for solar field power plants and mounting systems for rooftop systems mounted on slanted or flat roofs, will play an increasingly important role in the coming years.

## 8.2 GENERAL ECONOMIC CONDITIONS

### **8.2.1 ECONOMIC OUTLOOK**

Experts predict that the world economy will continue to expand in 2011, albeit at a more moderate pace than in 2010. The International Monetary Fund (IMF) estimates that global economic output will increase at a rate of 4.4 percent, with the emerging market countries providing the main impetus, as in the prior year. With regard to the industrialised nations, the experts are considerably more cautious, predicting a growth rate of only 2.5 percent. The economic growth of certain key industrialised nations will be hobbled by high levels of government debt. IMF experts predict that the US economy, for example, will expand at a rate of 3.0 percent in 2011. For Europe, the experts predict a growth rate of 1.5 percent. As for the emerging-market countries of Asia, the IMF anticipates continued strong growth of 8.4 percent, with the Chinese economy growing by 9.6 percent and the Indian economy by 8.4 percent. Experts predict that commodity costs and oil prices will continue to rise considerably in 2011, thereby raising the cost of conventional energy sources. Such development could pose a threat to the further economic recovery; on the other hand, it would also narrow the cost difference with renewable energies, making it more lucrative to use them.

### **8.2.2 INDUSTRY OUTLOOK**

The global demand for energy is set to rise in the years ahead as well and with it the importance of renewable energies. From today's standpoint, it is difficult to predict the extent to which the current events ensuing from the catastrophe in Japan will impact the future development of the photovoltaic sector. An increasingly critical stance towards nuclear energy generation could, however, result in earlier further growth and expansion of renewable energies and thus of photovoltaics.

In our view, the German market for new installations peaked in 2010 and can be expected to decline in the coming years. The German photovoltaic market will be considerably influenced by the reduced feed-in rates in 2011. The market volume could fall to 5 to 6 GWp in 2011. Business volumes have been subdued in the first two months of the current financial year, as can be expected in view of the fact that demand for the construction of photovoltaic power plants is typically low as a result of wintry weather conditions. We expect a significant increase in demand for photovoltaic systems at the start of the second quarter of 2011. The German Renewable Energies Act will be amended with respect to all renewable energy sources during the course of 2011. As a reaction to the high rates of new capacity installation in the past few years, a growing number of politicians and business people are calling for a fixed upper limit on the market. Therefore, the current year 2011 will be decisive for the photovoltaic industry in Germany. Consequently, the market volume could decline further to 3 to 4 GWp in 2012.

Industry experts expect the French government to place an upper limit of 500 MWp on the French market. Because there is currently a backlog of projects under construction, however, the French market could reach a volume of 1 to 1.5 GWp in both 2011 and 2012.

After the strong growth experienced in 2010, the global market is expected to stagnate in 2011. In view of the difficult market situation, we expect module prices to deteriorate in the second half of 2011 at the latest. However, the medium-term outlook for the industry remains positive. As costs continue to fall, photovoltaic power plants will approach the profitability threshold. The global market is expected to

resume growth already in 2012. According to the goals set by the European Union, renewable energies are supposed to account for 20 percent of total energy production by the year 2010. The national action plans devised on this basis point to the necessity of further expanding the use of renewable energies. The German federal government, for example, plans to increase the total installed photovoltaic capacity to 51.8 GWp in the year 2020. In many markets and market segments, photovoltaic power will be just as economical as conventional energy by the year 2020.

In consideration of the trends mentioned above, we anticipate a long-term trend of global market growth at annual rates of more than 20 percent through the year 2020.

### 8.3 ANTICIPATED DEVELOPMENT OF REVENUES AND EARNINGS IN THE BUSINESS SEGMENTS

The Components & Systems and Power Plants segments complement each other ideally, making it possible to re-balance solar module allotments if one of the two segments encounters a weak phase. With an eye to preserving this flexibility, the Executive Board considers it unhelpful to publish detailed segment forecasts.

We anticipate that the development in both business segments will remain persistently stable, with revenues stagnating or rising slightly in 2011. Even if module prices should sink in the medium term, in view of the earnings situation in the project business we expect margins to widen, as opposed to the Components & Systems segment where they will narrow. Against the background of the steadily declining significance of the German market for photovoltaics, Phoenix Solar will continue to shift its focus to its activities in the trading and project business in international markets. Compared with 2010, a significantly larger proportion of revenues is already to be generated from international business in 2011.

### 8.4 ANTICIPATED DEVELOPMENT OF REVENUES AND EARNINGS ON THE GROUP LEVEL

The development of our core markets will have lasting effects on the Group's revenues and operating results. The anticipated drop in business volumes and the resulting decline in operating results in the German home market necessitate an expansion into international markets. The Group will pursue that goal, both in the near future and beyond, by progressively increasing the proportion of revenues generated in its international markets.

After the strong growth experienced in 2010, the Executive Board of Phoenix Solar AG expects the world market to stagnate in the current financial year. The German market was again the world's lead market in 2010, but is thought to have reached its peak. Starting in 2011, the market volume is expected to diminish. In its international business, Phoenix Solar AG anticipates rising proportional revenue contributions from the markets of Italy, France and Greece, as well as the Middle East, Asia and the United States, in both 2011 and 2012.

### 8.5 ANTICIPATED DEVELOPMENT OF CASH FLOWS AND LIQUIDITY

In the financial year 2011, we expect stagnation or an only slight increase in revenues as against with 2010. No current, specific figures can yet be predicted for revenues or EBIT as the new conditions for promoting solar energy in a number of European markets, including Italy as the world's second largest in 2010, are still unknown. We expect revenues and EBIT to climb again in 2012.

The chief success factor for achieving these goals will be to further increase the proportional share of international revenues in both business segments.

The term of the current syndicated loan agreement will expire in the fourth quarter of 2011. At the time of the present Annual Report, however, negotiations are already being conducted on a new syndicated loan agreement for an upwardly adjusted amount, to allow for further business growth.

Due to the weak business volumes that are customarily encountered in the first quarter, the liquidity situation will not improve at first. The liquidity situation will begin to improve only during the course of the second quarter, when business volumes are expected to pick up considerably, leading to higher cash flows in both segments.

Liquidity will increase further during the course of the second half, due to higher cash inflows in both segments resulting from the strong business volumes anticipated in the second quarter, which will be driven primarily by pull-forward effects in Germany, in view of the upcoming reduction in subsidy rates under the German Renewable Energies Act, expected to take effect on 1 July 2011.

By means of careful and comprehensive financial and liquidity planning, Phoenix Solar is in a position to manage the allocation and use of financial resources in such a way as to assure sufficient liquidity at all times to conduct its business activities.

#### 8.6 DIVIDEND POLICY

The goal of the dividend policy of Phoenix Solar AG is to maintain the investment value of the company's share, while also accommodating the need to finance the company's growth and meeting the needs of the current business situation. Phoenix Solar is one of the few exchange-listed companies in the photovoltaic industry that has regularly distributed a dividend to shareholders. Even for the difficult financial year 2009, Phoenix Solar paid a dividend of EUR 0.20 per share.

Based on the preliminary figures for 2010, the Executive Board has resolved to propose to the Annual General Meeting that the company pay a dividend of EUR 0.35 per share for financial year 2010 (PY: EUR 0.20). This resolution is conditioned on the adoption of the financial statements for financial year 2010 and the approval of the Supervisory Board.

#### 8.7 OPPORTUNITIES IN THE BUSINESS SEGMENTS

In the Components & Systems segment, Phoenix Solar continues to see good growth opportunities, especially in the markets outside of Germany. As logistical capacities are extended to previously untapped markets, distributors of modules and accessories can enter new markets quickly. In its existing markets in Europe, Phoenix Solar is very well represented by an established network of distributors and partners; therefore, it can market the company's products intensively and accommodate the demand of those markets.

Phoenix Solar also sees growth opportunities in the Power Plants segment, even in the German market. In all markets, we believe that revenue-generating potential can be tapped by stepping up our activities in the area of rooftop systems and by marketing various services. Similar potential is seen for centrally performed maintenance and monitoring services for existing photovoltaic plants for third-party customers.

With regard to the construction of large-scale photovoltaic plants, the market conditions in Europe, outside of Germany, are very conducive to the growth of Phoenix Solar's business. We also see good opportunities in overseas markets, including the Arab world and Asia.

#### 8.8 GENERAL ASSESSMENT OF THE EXECUTIVE BOARD REGARDING THE ANTICIPATED DEVELOPMENT OF THE GROUP

In terms of revenues, the Executive Board expects stagnation or a marginal increase in 2011, to be followed in 2012 by a stronger growth in revenues and EBIT, with the associated continued profitable expansion of the Phoenix Solar Group. In anticipation of a more difficult market environment in the lead market of Germany, the Group will continue to pursue its internationalisation strategy with focused intensity. Furthermore, Phoenix Solar expects to generate its first revenues in the United States in the current year.

Given the known dynamism of the photovoltaic market, it is possible that future results will differ from the current expectations of the Executive Board of Phoenix Solar AG.

Sulzemoos, 15 March 2011  
Phoenix Solar Aktiengesellschaft  
The Executive Board



**Dr. Andreas Hänel**  
(Chief Executive Officer)



**Sabine Kauper**  
(Chief Financial Officer)



**Ulrich Reidenbach**  
(Chief Sales Officer)



**Dr. Murray Cameron**  
(Chief Operating Officer)



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A lush green forest with a stream flowing through it. The water is clear and reflects the surrounding greenery. The trees are tall and thin, with dense foliage. The ground is covered in moss and ferns.

1,989 kg

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*Deciduous forest in the region of Lazio, Italy*



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The power of the sun as a process engine: Around two tonnes of carbon dioxide (CO<sub>2</sub>) a year are converted through photosynthesis into oxygen by every square kilometre of deciduous forest in Italy. To put this potential from the sun to economic use as well, Phoenix Solar promoted photovoltaics in Italy – on rooftops, carports and in open spaces.

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Our Italian subsidiary achieved a significant increase in its revenues in 2010. Measured by market maturity, growth potential and return, analysts believe that Italy will continue to be one of Europe's most attractive photovoltaic markets in 2011 despite announced cuts in promotional programmes.

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Attractive government funding conditions and a good administrative environment led to strong growth in the Italian solar market in 2010. With an installed capacity of 3.8 GWp, the country had the second-largest volume of photovoltaic capacity additions worldwide, beaten only by Germany, at least according to preliminary estimates. We intend to forge ahead with internationalisation and anticipate rising revenues from our international business in Italy in 2011 and 2012 as well.


6,000

vehicles are protected from wind and rain under a Phoenix Solar photovoltaic carport which also produces green energy in Piacenza.

Phoenix Solar participated in the solar boom in this southern European country in 2010 and won a number of interesting solar power plant projects from different customers.

#### POWER PLANT PROJECTS FOR INTERNATIONAL ENERGY SUPPLIERS

Following the completion of the first megawatt solar power plant for E.ON Climate & Renewable in France in 2009, the energy supplier commissioned us with other power plant projects in Italy. On schedule at the end of the year, Phoenix Solar had two photovoltaic power plants with a total peak power of 8.9 MW connected to the grid. The team used crystalline solar modules for the 6.1 MWp power plant close to Taranto in Apulia and the 2.8 MWp power plant near Alessandria in Piemonte.

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We also carried out work on behalf of the international energy company Etrion. In its capacity as general contractor, Phoenix Solar built a ground-mounted photovoltaic solar park with a peak power of 3.5 MW in Borgo Piave in the Lazio region in spring 2011.

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**In Phoenix Solar we have found a flexible and reliable partner with long-standing experience and know-how in planning and building of large-scale solar power plants.**



Convincing combination of functionality and sustainable business management: the photovoltaic power plant on a carport in Piadena.

**THREE SOLAR PARKS FOR KGAL**

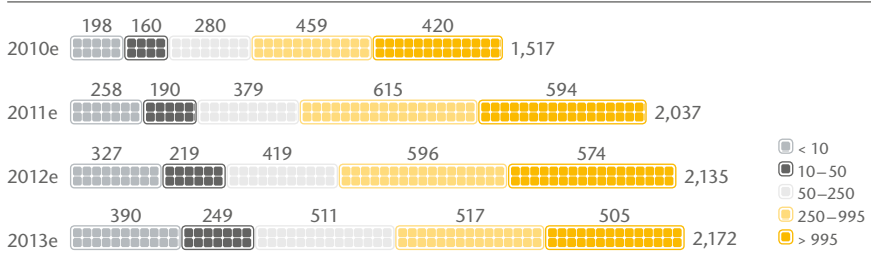
On behalf of German investor KGAL, we completed three projects worth EUR 55 million in total in 2010: Amongst others, two solar parks with a total peak power of 5 MW were built in Italy, one in Montalto, Lazio, and one in Guglionesi, Molise. Phoenix Solar also acted as general contractor for both these projects and, upon completion of the power plants, took over their operation and maintenance.

**PHOTOVOLTAICS MAKES CARPORTS DOUBLY USEFUL**

As early as 2009, Phoenix Solar had already delivered proof that carports are ideal for generating solar electricity through its construction of one of the largest photovoltaic power plants on a carport in Berlin. In 2010, we built one of the world's largest solar carports in Italy: In Piadena, only 40 kilometres south of Lake Garda in Lombardy, we installed around 24,700 crystalline modules on a surface area of around 30,000 square metres. The 5.9 MWp power plant now produces around 6.4 million kWh of clean electricity per year and protects 6,000 vehicles against the elements, be it rain, hail, or dirt. Phoenix Solar takes care of both at the same time – clean cars and clean electricity.

see p. 60

Photovoltaic market volume in Italy by plant size until 2013 in kWp



Source: EuPD Research, November 2010

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# CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2010 UNTIL  
31 DECEMBER 2010 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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## CONSOLIDATED INCOME STATEMENT

for the period from 01/01/ until 31/12/2010	Notes C. & D.	2010 k€	2009 k€
Revenues	(1)	635,676	473,032
Change in inventory of work in process	(2)	163	- 16,872
<b>Overall performance</b>		<b>635,839</b>	<b>456,160</b>
Other operating income	(3)	4,848	3,897
Cost of materials	(4)	554,372	414,371
Personnel expenses	(5)	23,586	16,017
Depreciation and amortisation	(6)	1,094	667
Other operating expenses	(7)	25,293	16,844
<b>Operating result</b>		<b>36,342</b>	<b>12,158</b>
Result from associated companies	(8)	58	18
<b>EBIT</b>		<b>36,400</b>	<b>12,176</b>
Financial income		231	418
Financial costs		2,483	1,660
<b>Financial result</b>	(9)	<b>- 2,252</b>	<b>- 1,242</b>
<b>Consolidated net income before income taxes (EBT)</b>		<b>34,148</b>	<b>10,934</b>
Income taxes	(10)	10,014	2,379
<b>Consolidated net income for the period</b>		<b>24,134</b>	<b>8,555</b>
- of which due to minority interest	(27)	- 19	0
- of which due to majority shareholders	(27)	24,153	8,555
<b>Earnings per share</b>			
Earnings per share (basic)	(11)	3.44	1.28
Earnings per share (diluted)	(11)	3.44	1.28

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 01/01/ until 31/12/2010	Notes D.	2010 k€	2009 k€
<b>Consolidated net income for the period</b>		<b>24,134</b>	<b>8,555</b>
Transactions associated with minority interests		0	75
Differences from currency translation		- 38	- 59
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(27)	- 38	16
<b>Overall performance</b>		<b>24,096</b>	<b>8,571</b>
- of which due to minority interest		- 19	75
- of which due to majority shareholders		24,115	8,496

## CONSOLIDATED BALANCE SHEET

as per 31 December 2010

ASSETS	Notes C. & D.	2010 k€	2009 k€
<b>Noncurrent assets</b>			
Intangible assets	(12)	3,471	2,072
Goodwill	(13)	533	533
Property, plant and equipment	(14)	3,110	2,705
Investments in associates	(16)	418	404
Other participating interests	(17)	160	160
Noncurrent receivables	(18)	688	687
Deferred tax assets	(10)	1,799	1,341
Noncurrent other financial assets	(23)	725	1,444
<b>Total noncurrent assets</b>		<b>10,904</b>	<b>9,346</b>
<b>Current assets</b>			
Inventories	(19)	149,536	69,185
Prepayments	(20)	3,346	4,040
Receivables from long-term construction contracts	(21)	82,227	41,072
Trade receivables	(22)	31,140	24,507
Current other financial assets	(23)	6,816	1,161
Current other non-financial assets	(25)	18,015	6,926
Current income tax assets	(10)	1,735	1,534
Cash and cash equivalents	(26)	9,588	24,461
<b>Total current assets</b>		<b>302,403</b>	<b>172,886</b>
<b>Total assets</b>		<b>313,307</b>	<b>182,232</b>



LIABILITIES AND SHAREHOLDERS' EQUITY	Notes C. & D.	2010 k€	2009 k€
<b>Equity</b>			
Subscribed capital	(27)	7,373	6,701
Capital reserve	(27)	63,559	41,805
Accumulated other equity		71,453	48,679
<b>Share of majority shareholders in consolidated equity</b>		<b>142,385</b>	<b>97,185</b>
Share of minority interest in consolidated equity		60	79
<b>Total equity</b>	(27)	<b>142,445</b>	<b>97,264</b>
<b>Noncurrent liabilities and provisions</b>			
Noncurrent financial liabilities	(28)	37	47
Noncurrent provisions	(29)	2,196	1,522
Deferred tax liabilities	(10)	3,113	1,514
<b>Total noncurrent liabilities and provisions</b>		<b>5,346</b>	<b>3,083</b>
<b>Current liabilities and provisions</b>			
Current financial liabilities	(28)	52,642	6
Liabilities from long-term construction contracts	(21)	267	302
Trade payables	(30)	84,538	51,705
Other financial liabilities	(31)	7,044	4,324
Other non-financial liabilities	(31)	13,047	14,165
Current provisions	(29)	1,693	1,828
Current income tax liabilities	(10)	6,285	9,555
<b>Total current liabilities and provisions</b>		<b>165,516</b>	<b>81,885</b>
<b>Total liabilities and shareholders' equity</b>		<b>313,307</b>	<b>182,232</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/ until 31/12/2010	Notes D. & F.	Subscribed capital	Capital reserve	Accumu- lated other equity	Share of majority shareholders in consoli- dated equity k€	Share of minority interest in consoli- dated equity k€	Total equity k€
		k€	k€	k€	k€	k€	k€
<b>As per 01/01/2009</b>		<b>6,685</b>	<b>40,433</b>	<b>42,191</b>	<b>89,309</b>	<b>2</b>	<b>89,311</b>
Purchase of remaining shares in Scarlatti Srl, Italy					0	- 2	- 2
Consolidation of Phoenix Solar L.L.C., Muscat					0	79	79
Reserve for share options	(27) (40)		1,075		1,075		1,075
Exercise of share options	(27) (40)	16	297		313		313
Dividend payment	(27)			- 2,005	- 2,005		- 2,005
Difference from currency translation	(27)			- 62	- 62		- 62
Consolidated net income in 2009				8,555	8,555		8,555
<b>As per 31/12/2009</b>		<b>6,701</b>	<b>41,805</b>	<b>48,679</b>	<b>97,185</b>	<b>79</b>	<b>97,264</b>
<b>As per 01/01/2010</b>		<b>6,701</b>	<b>41,805</b>	<b>48,679</b>	<b>97,185</b>	<b>79</b>	<b>97,264</b>
Reserve for share options	(27) (40)		1,264		1,264		1,264
Exercise of share options	(27) (40)	1	33		34		34
Dividend payment	(27)			- 1,341	- 1,341		- 1,341
Increase in share capital	(27)	671	20,457		21,128		21,128
Difference from currency translation	(27)			- 38	- 38	0	- 38
Consolidated net income in 2010				24,153	24,153	- 19	24,134
<b>As per 31/12/2010</b>		<b>7,373</b>	<b>63,559</b>	<b>71,453</b>	<b>142,385</b>	<b>60</b>	<b>142,445</b>

## CONSOLIDATED CASH FLOW STATEMENT

for the period from 01/01/ until 31/12/2010	Notes C. – E.	2010 k€	2009 k€
Consolidated income before income taxes		34,148	10,934
Depreciation and amortisation	(6)	1,094	667
Other non-cash income (-) and expenses (+) (including result from associated companies)	(33)	4,346	- 37
Profit/loss from disposal of intangible assets and equipments	(3)	- 3	1
Financial income	(9)	- 231	- 418
Financial costs	(9)	2,483	1,660
<b>Sub-total</b>		<b>41,837</b>	<b>12,807</b>
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	634	335
Increase/decrease in inventories	(19)	- 84,790	5,414
Increase/decrease in prepayments	(20)	695	- 2,597
Increase/decrease in receivables from long-term construction contracts	(21)	- 41,155	- 40,337
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	- 6,736	1,075
Increase/decrease in assets	(23), (25)	- 16,166	3,570
Increase/decrease in liabilities	(30), (31)	35,797	47,680
<b>Funds generated by operating activities</b>		<b>- 69,884</b>	<b>27,947</b>
Interest paid	(9)	- 1,857	- 1,513
Income taxes paid	(10)	- 12,757	- 4,851
<b>Cash flow from operating activities</b>		<b>- 84,498</b>	<b>21,583</b>
Proceeds from associated companies	(16)	45	50
Proceeds from disposal of intangible assets and equipment	(3)	3	2
Purchase of intangible assets and equipment	(12), (14)	- 2,880	- 3,116
<b>Cash flow from investing activities</b>		<b>- 2,832</b>	<b>- 3,064</b>
Payments in connection with increases in subscribed capital	(27)	21,050	313
Dividends paid	(27)	- 1,341	- 2,005
Payments in connection with financial liabilities	(28)	52,627	- 1
Interest income	(9)	121	100
<b>Cash flow from financing activities</b>		<b>72,457</b>	<b>- 1,593</b>
Changes in cash and cash equivalents		- 14,873	16,926
Currency-induced changes in cash and cash equivalents		0	0
Consolidation-related changes in cash and cash equivalents		0	0
<b>Net change in cash and cash equivalents</b>		<b>- 14,873</b>	<b>16,926</b>
Cash and cash equivalents at the start of the period	(26)	24,461	7,535
Cash and cash equivalents at the end of the period	(26)	9,588	24,461
<b>Increase/decrease in cash and cash equivalents</b>		<b>- 14,873</b>	<b>16,926</b>

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# NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS  
ACCORDING TO IFRS FOR THE 2010 FINANCIAL YEAR OF  
PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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## A. BASIC PRINCIPLES AND METHODS

### (1) GENERAL

As of 31 December 2010, the Phoenix Solar Group (also referred to hereinafter as the Phoenix Group) consisted of 20 companies with a total of 319 (PY: 271) employees (including members of the Executive Board).

The ultimate parent company of the Group is a corporation (stock corporation). In accordance with the resolution adopted by the annual general meeting of the former Phönix SonnenStrom Aktiengesellschaft of 25 May 2007, the company is named Phoenix Solar Aktiengesellschaft (referred to hereinafter as Phoenix Solar AG), with its head office at Hirschbergstraße 8, in 85254 Sulzemoos, Germany; it is registered in the Commercial Register of the Munich Local Court under the register number HRB 129117.

The parent company has been included in the German stock index TecDAX since 25 March 2008. TecDAX is assigned to the Prime Standard segment of the German Stock Exchange run by Deutsche Börse AG, where it represents 30 medium-sized German stock corporations in the technology sector below the level of the 30 DAX stocks. Companies are included in this index on the basis of market capitalisation and order book revenues.

The business object of Phoenix Group comprises the development, production, sales, operation and administration of plants for generating energy from renewable energy sources, and the construction and maintenance of such plants. The Phoenix Group also distributes components and systems for generating energy from renewable energy sources. Most of the Group's business activities were conducted in the euro zone in 2010.

### (2) INFORMATION ON ACCOUNTING STANDARDS

The shares of Phoenix Solar AG are traded on the official market of the Prime Standard sub-segment of the Frankfurt Stock Exchange. Consequently, the consolidated financial statements must be prepared in accordance with international accounting standards according to Article 4 of Directive (EC) No. 1606/2002 of the European Parliament and Council of 19 July 2002, as amended.

Therefore, Phoenix Solar AG prepares its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB) in London, which are to be applied as of 31 December 2010, and taken over by the EU as of the date of preparation of the present consolidated financial statements. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to financial year 2010 and the earlier interpretations of the Standing Interpretations Committee (SIC), to the extent they were taken over by the EU as of the date of preparation of the present consolidated financial statements, as well as the supplementary provisions of Section 315a (1) of the German Commercial Code (HGB) have been observed in the present consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement plus the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the obligatory Group management report. The consolidated financial statements were prepared on the basis of the going-concern principle and the historical cost principle, with the exception of the fair model value applied for purposes of measuring the value of derivative financial instruments.

The consolidated financial statements are denominated in euros, as the reporting currency of the Group. In accordance with the functional currency concept, the balance sheet items of the respective Group companies are always denominated in the currency used in the primary economic environment in which the company operates. Transactions denominated in currencies other than the functional currency are translated at the spot rate between the functional currency and the non-functional currency applicable on the respective transaction date. Any currency translation differences are recognised in income.

When a measurement unit different than the euro is used, such as thousand €, for example, such fact will be indicated in the respective denomination.

The preparation of consolidated financial statements requires the use of estimates and assumptions that influence the amounts of assets, liabilities and financial commitments as of the reporting date and the amounts of income and expenses during the financial year. The actual amounts can differ from these estimates. In particular, the management is required to make estimates and assumptions relative to the adoption of uniform recognition and measurement principles to be applied in the consolidated financial statements. Such estimates and assumptions are continually reviewed and adjusted whenever past experiences, other factors and reasonable estimations of future developments necessitate a different assessment of specific topics by the management. The effects of any changes in the estimates or assumptions applied are recognised in profit or loss prospectively in the period in which such changes are made.

The principal estimates and assumptions that can be particularly important for the Group's financial position, cash flows and results of operations are the following:

● **THE STAGE OF COMPLETION UNDER THE PERCENTAGE-OF-COMPLETION METHOD**

The Group employs qualified definition criteria in determining whether to apply the percentage-of-completion method or the zero-profit method according to IAS 11. As a result of developments in the industry and the continual evolution of contract types associated with those developments, it is necessary in some cases to estimate the future fulfilment of contractual conditions precedent as of the reporting date. Although the Construction Controlling Department of the Phoenix Group applies the most probable outcome of a contract to the greatest possible extent as the basis for assessing the applicability of the percentage-of-completion method, it is nonetheless possible that rather improbable scenarios may come into effect, making it necessary to reclassify a construction contract as a zero-profit method contract according to the principles of pro-rated profit recognition. Such a reclassification could lead to a different presentation of the results of operations and financial position.

Because the cost-to-cost method is applied, future project costs need to be estimated in order to determine the percentage of completion as of the reporting date and therefore also the recognition of receivables under long-term construction contracts. In such cases, it cannot be ruled out that estimation errors could lead to imprecise results with regard to the recognition of period profits.

- **ESTIMATION OF THE SALEABILITY OF MODULE INVENTORIES**

As a wholesaler, it is necessary to keep certain products in sufficient reserve quantities in order to quickly fill individual release orders by customers. The portfolio of products is constantly monitored and periodically adjusted. Adjustments are made on the basis of the company's estimates of the marketability of products and the anticipated demand. In making such estimations, it cannot be ruled out that the demand may be estimated incorrectly. This can result in the creation of inventories that run the risk of becoming obsolete due to technological progress and would therefore have to be written down to the lower net realisable value. The relevant values are forecast by Sales.

- **ESTIMATION OF INCOME TAXES**

The determining factor for recognising deferred tax assets is always an estimation of the future performance of the respective taxpaying entity. In determining the amount of deferred tax assets that can be recognised, the management needs to make important assumptions regarding the expected timing and amount of future taxable income, as well as future tax planning strategies.

- **ESTIMATION OF THE ENFORCEABILITY OF CONTRACTUAL PURCHASING AND SALES TERMS**

The Phoenix Group places a high priority on the appropriateness and balance of purchasing and selling terms. In a very dynamic market like the photovoltaics market, this fundamental approach could lead to the result that contractual agreements and terms are agreed in part with the goal of influencing purchasing and selling prices, which entails the consideration of future events. To predict the outcome of such events, which cannot be influenced by the Phoenix Group in every respect, an estimation of the future occurrence of events needs to be made for period accrual purposes. Such estimates can differ from the actual outcome of events.

- **DETERMINING THE NEED FOR IMPAIRMENT LOSSES**

In conducting impairment tests of goodwill, the Group applies calculations based on the discounted cash flow method. For this purpose, the expected cash flows over the next three years are derived from the financial plan for the cash-generating units being tested; excluded from these calculations are restructuring measures to which the Group has not yet committed itself and future expansion investments that will increase the income-generating capacity of the tested cash-generating units, but are not yet being implemented. The recoverable amount is highly dependent on the discount factor applied in connection with the discounted cash flow method, as well as the estimated expected future cash inflows and outflows and the growth rate applied.

- **MEASUREMENT OF FINANCIAL INSTRUMENTS**

In those cases in which no active market exists, the fair value of financial instruments must be determined either with reference to a surrogate market price or through the use of recognised valuation technique such as the discounted cash flow method. Model inputs are determined to the greatest extent possible on the basis of observable market data. When that is not possible, the fair values must be determined by means of discretionary judgments, to some extent. Such discretionary judgments relate to parameters such as liquidity risk, credit risk and volatility. Changes in the assumptions underlying such factors can have an effect on the recognised fair values of financial instruments.



#### ● MEASUREMENT OF STOCK OPTIONS

IFRS 2 is applied for the accounting treatment of stock option plans, as particular forms of compensation under which the company will be obligated to deliver its own shares to the beneficiaries when the stock options are exercised. The fair value of the stock options at the grant date is determined on the basis of market prices (quoted prices of Deutsche Börse AG, Frankfurt), in consideration of the issue terms and conditions and by application of generally recognised measurement techniques for financial instruments. The factors considered in measuring the value of stock options are the exercise price, the term, the current market value of the underlying (the share of Phoenix Solar AG), the expected volatility of the market price based on historical volatilities, the expected dividends to be paid on the shares and the risk-free interest rate for the term of the stock options. Other factors taken into consideration, as particular aspects of the exercise possibility, are the necessary waiting period (vesting period) and the potential exercise of the stock options, based on historical exercise patterns. In subsequent periods, the calculated value of the stock options is recognised as expenses over the term, in consideration of the assumed length of service or the assumed turnover among the beneficiaries. Because the corresponding amounts are presented in personnel expenses and in the additional paid-in capital reserves, changes in estimates relative to the quantity structure can lead to discontinuous capital appropriations.

#### ● MEASUREMENT OF LONG-TERM INCENTIVES

In connection with the implementation of the German Executive Board Compensation Act, the Group revised the rules applicable to success-dependent compensation components with a long-term incentive effect. As a general rule, a dual system comprising both personal (qualitative) goals and company-specific (quantitative goals) is applied. To ensure that the compensation system is appropriately geared to long-term success, long-term incentives were installed in the form of an EBIT hurdle for the quantitative goals and a bonus index system based on a multiplier concept. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the indexed operating performance of exchange-listed companies and their principal business segments, known as the peer group. Because the indexation is finally effected on the basis of published company data, the company can only make index-relevant estimates as of the balance sheet date, which may differ from the final claims. Because earned bonuses are paid on two different due dates, the measured value also reflects the corresponding interest effect.

#### ● RECOGNITION AND MEASUREMENT OF PROVISIONS AND/OR CONTINGENT LIABILITIES

Due to the Group's business activity in the Power Plants segment and the generally assumed role of general contractor, the Group may be exposed to special warranty risks in some cases. Although the Group requires adherence to quality standards (such as ISO 9001 certification for sub-contractors and suppliers, for example) in selecting materials and sub-contractors, as well as the appropriate training of the Phoenix employees involved, warranty provisions for completed projects cannot be entirely avoided. For lack of industry-specific long-term experience values, statistical methods must be applied to a heightened extent for determining the best estimate of a provision. Due to the absence of a basic population of statistically analysable data at the present time, it must be assumed that the reliability of such estimates is limited. Therefore, it cannot be ruled out that such provisions can follow an asynchronous development with respect to revenue growth or materials and purchased services in future periods.

#### a) New Standards, amendments and Interpretations to be applied in 2010

On 16 April 2009, the International Accounting Standards Board (IASB) published its second Standard, known as Annual Improvements 2007 – 2009, in connection with the Annual Improvements Process (AIP) project. This Standard entails amendments to ten IFRS and two IFRIC Interpretations. Unless otherwise noted, the amendments are to be applied in financial years that begin on or after 1 January 2010. These amendments have been adopted as European law by the European Union. The amendments to this Standard have been implemented to the extent that they are relevant to the Phoenix Group. These amendments did not necessitate any significant changes to the consolidated financial statements.

On 18 June 2009, the IASB also published amendments to IFRS 2 Share-Based Payment, which clarify the Group's accounting treatment of cash-settled share-based payments. In this connection, the IASB withdrew IFRIC 8 and IFRIC 11. These amendments take effect in reporting periods that begin on or after 1 January 2010. They must be applied retroactively. Earlier application is allowed. For the Phoenix Group it has not been necessary to modify its previous accounting methods as a result of the first-time application of this amendment. These amendments have also been adopted as European law by the European Union.

#### b) Applicable Standards, amendments and Interpretations that are not relevant to the Group

The following Standards, amendments and Interpretations were published by the IASB in the past and must be applied, as a general rule, in financial years that begin on or after 1 January 2010. However, these rules are not relevant to the consolidated financial statements of the Phoenix Group.

On 28 January 2010, the IASB published a minor amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. However, these changes, which apply to financial years that begin after 1 July 2010, are not relevant to the Phoenix Group. This amendment has been adopted as European law by the European Union.

#### c) Standards, amendments and Interpretations, application of which is not obligatory and which have not been applied ahead of obligatory application

The following Standards, amendments and Interpretations were published on or before the reporting date and must be applied as of 1 January 2011 at the earliest.

On 8 October 2009, the IASB again published amendments to IAS 32 Financial Instruments: Presentation. The amendments relate to the accounting treatment by the issuers of subscription rights, options and warrants for the purchase of a fixed number of equity instruments, which are denominated in a different currency than the functional currency of the issuer. The amendments must be applied in fiscal years that begin on or after 1 February 2010. Earlier application of these amendments, which have been adopted as European law, is allowed. Because the equity instruments issued by Phoenix Solar AG are denominated in the functional currency of Phoenix Solar AG, this amendment is not relevant to the Phoenix Group.

On 4 November 2009, the IASB published an amended version of IAS 24 Related Party Disclosures. The amended Standard is to be applied in reporting periods that begin on or after 1 January 2011. The Phoenix Group expects no changes or additions to the current disclosures as a result of this amendment, which has been adopted as European law.

On 6 May 2010, the IASB published its Annual Improvements to IFRS 2008-2010, which entailed amendments to six IFRS and one Interpretation (IFRIC). Unless otherwise noted, the amendments that have been adopted as European law must be applied in financial years that begin on or after 1 January 2011. Earlier application is allowed. The amendments will not have any significant effects on the accounting practices of the Phoenix Group.

On 7 October 2010, the IASB published amendments to IFRS 7 Financial Instruments: Disclosures. The amendments serve to largely harmonise the corresponding disclosure obligations under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US-GAAP). The amendments to IFRS 7 increase the disclosure requirements relative to the transfer of financial assets and are meant to convey a better understanding of the effects of the risks remaining with the company for the users of financial statements. Enterprises are required to apply the amendments in financial years that begin on or after 1 July 2011. Early application is possible. Comparison data can be omitted in the first year of application. The Phoenix Group is examining the resulting effects on the Group's financial position and results or cash flow. These amendments have not yet been adopted as European law.

On 28 October 2010, the IASB published supplementary provisions to IFRS 9 on the accounting treatment of financial liabilities. IFRS 9 (2009), which was published by the IASB on 12 November 2009, only prescribed rules relative to the classification and measurement of financial assets. As a supplement to IFRS 9 (2009), IFRS 9 (2010) also prescribes rules for the classification and measurement of financial liabilities and for the derecognition of financial assets and liabilities. With the exception of the fair value option, IFRS 9 (2010) does not contain any significant amendments relative to the accounting treatment of financial liabilities. Under the fair value option, fair value changes resulting from the enterprise's own credit risk must be recognised in Other Comprehensive Income (OCI) and all other fair value changes must be recognised in the income statement ("one-step approach"). With regard to derecognition, IFRS 9 (2010) incorporates the rule from the currently valid IAS 39. IFRS 9 must be applied in financial years that begin on or after 1 January 2013. Earlier application already in 2010 is allowed. IFRS 9 has not yet been incorporated into European law.

On 20 December 2010, the IASB again published amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards. In the new version, the previous references to 1 January 2004 were replaced with a reference to the date of first-time adoption to IFRS. In addition, rules were introduced for those cases in which an enterprise is not able to fulfil all IFRS requirements, due to hyperinflation. The amendments must be applied in financial years that begin on or after 1 July 2011. These amendments have not yet been adopted as European law and they are not relevant to the Phoenix Group.

On the same date, the IASB also published amendments to IAS 12 Income Taxes. These amendments also entailed changes in the scope of application of SIC-21 Income Taxes: Recovery of Revalued Non-Depreciable Assets. The amendment provides a partial clarification of the accounting treatment of temporary tax differences in connection with the application of the fair value model of IAS 40. In the case of investment property, it is often difficult to assess whether existing differences will reverse through continued use or sale. Therefore, the published amendment introduces the presumption that such differences will normally reverse through sale. The amendment must be applied retrospectively in financial years that begin on or after 1 January 2012. These amendments have not yet been adopted as European law and the Phoenix Group does not anticipate any effects on the consolidated financial statements.

#### d) Interpretations that are neither obligatory nor relevant to the Group

The following Interpretations were published by IFRIC on or before the reporting date and must be applied at the earliest in financial years beginning on or after 1 January 2011. These Interpretations relate to matters that were not relevant to the Phoenix Group as of the reporting date.

On 26 November 2009, the IASB published an amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction and the draft of an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRIC 14 is only relevant in those rare cases in which an enterprise is subject to minimum funding requirements and makes advance contribution payments to fulfil them. The amendment to IFRIC 14 must be applied as of 1 January 2011; earlier application in financial statements at 31 December 2010 is allowed. This amendment has been adopted as European law. Because the Phoenix Group did not owe any defined benefit obligations to its employees at the reporting date, this amendment has no effect on the Group's accounting practices.

On 26 November 2009, the IFRIC published IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, an Interpretation that provides guidance relative to the accounting treatment of so-called "debt-for-equity swaps." IFRIC 19 must be applied in reporting periods that begin on or after 1 July 2010; earlier application is allowed. Because the Phoenix Group does not extinguish any financial liabilities by issuing shares or other equity instruments, either in full or in part, this Interpretation, which has been adopted as European law, is not relevant to the Phoenix Group.

#### (3) REPORTING DATE

The reporting date of the companies included in the consolidated financial statements is 31 December of every year. The accounting period covered by the financial statements is the period from 1 January to 31 December.

#### (4) DATE OF AUTHORISATION FOR ISSUE

The financial statements have been issued for authorisation on 30 March 2011. The Executive Board approved the release and forwarded it to the Supervisory Board for their approval.

## (5) CONSOLIDATION PRINCIPLES

### **GROUP OF CONSOLIDATED COMPANIES**

All subsidiaries are included in the consolidated financial statements of Phoenix Solar AG according to the principles of IAS 27. Compared to the status as of 31 December 2009, eight companies were added to the consolidation group of the Phoenix Group (two companies in the previous year).

In addition to the parent company, therefore, the following 19 companies were consolidated – 11 lasting sales subsidiaries and 8 subsidiaries for projects:

Name of subsidiary	Type of consolidation	Share of equity/ voting rights
Phoenix Solar S.L., Madrid, Spain	Full consolidation	100 %
Phoenix Solar S.r.l., Rome, Italy	Full consolidation	100 %
Phoenix Solar E.P.E., Athens, Greece	Full consolidation	100 %
Phoenix Solar SAS, Lyon, France	Full consolidation	100 %
Phoenix Solar Pty Ltd, Adelaide, Australia	Full consolidation	100 %
Phoenix Solar Incorporated, New Castle/Delaware, USA	Full consolidation	100 %
Phoenix Solar Pte. Ltd., Singapore, Singapore	Full consolidation	75 %
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	Full consolidation	75 %
Phoenix Solar L.L.C., Muscat, Oman	Full consolidation	70 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phönix SonnenFonds GmbH & Co. KG D4, Sulzemoos, Germany	Full consolidation	100 %
<b>Project companies</b>		
SOMI GmbH, Geroldshausen, Germany	Full consolidation	100 %
Scarlatti Srl., Eppan an der Weinstraße, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
TPC Photoenergy srl, Eppan an der Weinstraße, Italy	Full consolidation	100 %
Plaxo Solar S.L., Madrid, Spain	Full consolidation	100 %
Abalia Solar S.L., Madrid, Spain	Full consolidation	100 %
Hexasolar S.L., Madrid, Spain	Full consolidation	100 %
PSFR001 SARL, Strasbourg, France	Full consolidation	100 %

The company SOMI GmbH, with its head office in Geroldshausen, Germany, was formed in March 2010. The subsidiary serves as a project company in the power plant business. The formation costs amounted to approximately EUR 13 thousand.

In order to fulfil the prerequisites for the planned entry of the Phoenix Group into the US photovoltaics market, Phoenix Solar Incorporated, with its head office in New Castle/Delaware, United States of America, was founded on 12 May 2010. The capital contribution to be paid is 100 thousand US dollar (USD); it was paid in full in July of the past financial year.

In May 2010, Scarlatti Srl., Eppan an der Weinstraße, Italy, acquired the equity shares of the project company Horus S.r.l., in Ragusa, Italy. The shares were purchased by way of two instalments. The first instalment on the purchase price obligation, in the amount of EUR 438 thousand, was due upon signing of the contract and was paid then; the second instalment on the purchase price obligation, in the amount of EUR 812 thousand, is contingent upon certain project-related preconditions, which were not yet fulfilled at the reporting date and must still be fulfilled in full by the sellers of the shares. The pur-

chase of shares in the project company is not a business combination in the sense of IFRS 3 because the company so purchased is not a “business” according to the definition of IFRS 3; instead, the purchase is a structured acquisition of a “project right” asset. The Phoenix Group anticipates that the second instalment, which has not yet been recognised in the financial statements, will be due and payable in the next seven months. The business object of the project company comprises the holding and exercise of project rights for the construction of photovoltaic plants.

In June 2010, the Spanish subsidiary Phoenix Solar S.L. formed three project companies, Plaxo Solar S.L., Abalia Solar S.L. and Hexasolar S.L., with their head offices in Madrid, Spain. The main business object of the project companies is to hold project rights and the right to market those rights. A total amount of EUR 9 thousand was expended as formation capital.

On 12 July 2010, the majority-owned subsidiary Phoenix Solar Pte. Ltd., Singapore, formed a wholly-owned subsidiary, Phoenix Solar Sdn Bhd, Kuala Lumpur/Malaysia, for the purposes of the Group’s business activities in the Asian region. The main purpose of the subsidiary is to market the portfolio of the Phoenix Group and to serve customers in Malaysia. The formation capital amounted to approximately EUR 38 thousand.

On 20 October 2010, moreover, a French project company, PSFR001 SARL, was purchased for the purpose of operationalising and implementing a larger photovoltaic project in France. The purchase price equals the minimum formation capital of EUR 1 thousand which was fully paid in.

The following company was included in the consolidated financial statements as an associated company by application of the equity method.

Company name	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2010 k€	Profit/loss 2010 k€
Phönix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	At-Equity	31.2 %	847	43

Several limited partner companies for which Phoenix Solar Fonds Verwaltung GmbH serves as the general partner (without holding an equity stake in any case) are not consolidated because the relevant provisions of the articles of incorporation of these companies do not allow the general partner to exert a controlling influence on them.

Non-consolidated limited partner companies for which Phoenix Solar Fonds Verwaltung GmbH serves as the general partner:

Company name	Total assets 31/12/2010 (HGB) k€	Total liabilities 31/12/2010 (HGB) k€	Income 2010 (HGB) k€	Period profit or loss 2010 (HGB) k€
Phönix SonnenFonds GmbH & Co. KG A1/2 West	379	128	79	31
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	378	128	79	30
Phönix SonnenFonds GmbH & Co. KG A3/4 West	378	128	79	31
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	372	128	76	29
Phönix SonnenFonds GmbH & Co. KG A5/6 West	374	128	78	30
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	370	127	76	30

Company name	Total assets 31/12/2009 (HGB) k€	Total liabilities 31/12/2009 (HGB) k€	Income 2009 (HGB) k€	Period profit or loss 2009 (HGB) k€
Phönix SonnenFonds GmbH & Co. KG A1/2 West	424	191	89	45
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	421	191	88	44
Phönix SonnenFonds GmbH & Co. KG A3/4 West	422	191	89	45
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	417	191	86	43
Phönix SonnenFonds GmbH & Co. KG A5/6 West	418	189	87	44
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	413	190	83	41

By application of IAS 32.18b), the capital accounts of the owners of the unincorporated entities would have to be included in the total liabilities. The chosen presentation fulfils the new requirements of IAS 32 (amended), Financial Instruments: Presentation and IAS 1 (amended), Presentation of Financial Statements, which largely allow the option of presenting economic equity.

An existing 50 percent investment in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG is not included in the consolidated financial statements, either as a joint venture or as an associated company. Due to the absence of different provisions in the articles of incorporation, Phoenix Solar AG as the limited partner has no influence whatsoever on the financial and operating policies of the company.

Company name	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2010 k€	Profit/loss 2010 k€
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, Grünwald, Deutschland	n/a	50 %	298	8

The shares in non-consolidated companies are presented under “Other investments”.

## CONSOLIDATION PRINCIPLES

### a) Subsidiaries

Subsidiaries are included in the consolidation group of the parent company when the Group has the power to govern their financial and operating policies and derive economic benefits, which generally results from holding more than 50 percent of the voting rights in those companies. The existence and effects of potential voting rights that currently can be exercised or converted are taken into consideration for the purpose of evaluating control according to the definition of IAS 27.

The purchase method is applied to account for business combinations. The cost of an acquisition is measured as the fair value of the assets provided, the equity instruments issued and the liabilities assumed on the date when control is obtained. Upon initial recognition, the identifiable assets acquired and the liabilities and contingent liabilities assumed are measured at their fair value as of the acquisition date. If the acquisition cost is higher than the Group’s proportional share of the remeasured net assets, the difference is recognised as goodwill in the consolidated statement of financial position; in the rare case when the acquisition cost is less than the Group’s proportional share of the remeasured net assets, this difference is recognised immediately as a gain in profit or loss.

Companies acquired during the financial year are included in the consolidated financial statements as of the acquisition date.



To allow for uniform accounting practices within the Group, the recognition and measurement methods of the individual subsidiaries have been harmonised with those of the Group.

Intragroup balances are eliminated in accordance with IAS 27. Therefore, receivables and payables between companies included in the consolidated financial statements are eliminated in full.

Expenses and income are consolidated in accordance with IAS 27. Therefore, intragroup expenses and income are eliminated in full as of the date of initial consolidation.

In accordance with IAS 27, gains or losses on intragroup transactions that are contained in the carrying amounts of assets are eliminated in full. An intragroup loss is regarded as an indication of a possible impairment.

The income tax effects of consolidation measures that have an impact on profit and loss are taken into consideration and deferred taxes are recognised when necessary.

#### **b) Companies consolidated for the first time**

One subsidiary, Phoenix Solar Incorporated, with its registered head office in New Castle/Delaware, United States of America, and one sub-subsidiary, Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia, were included as permanent members of the consolidation group for the first time in financial year 2010.

In addition, six project companies were formed or acquired in Germany and abroad during the year for the purpose of promoting the project business in the respective regions. The business object of the project companies comprises the holding and exercise of project rights for the construction of photovoltaic plants. The following project companies were added to the consolidation group in 2010:

- SOMI GmbH, with its registered head office in Geroldshausen, Germany
- Horus S.r.l. with its registered head office in Ragusa, Italy
- Plaxo Solar S.L., with its registered head office in Madrid, Spain
- Abalia Solar S.L., with its registered head office in Madrid, Spain
- Hexasolar S.L., with its registered head office in Madrid, Spain
- PSFR001 SARL, with its registered head office in Strasbourg, France

Details on the formation and acquisition of these companies are provided in Note (5) Group of Consolidated Companies.

Due to the fact that the project companies acquired are shell companies, the fair values and carrying amounts as of the date of initial consolidation were calculated as follows:

	Horus S.r.l. k€	Plaxo Solar S.L. k€	Abalia Solar S.L. k€	Hexasolar S.L. k€	PSFR001 SARL k€
Noncurrent assets	0	0	0	0	0
Current assets	12	3	3	3	1
Equity	12	3	3	3	1
Noncurrent liabilities	0	0	0	0	0
Current liabilities	0	0	0	0	0

The current assets are composed exclusively of cash and cash equivalents in the form of the capital contributions acquired in every case. Only the acquisition of shareholdings PSFR001 SARL led to a realization of hidden reserves in the inventory (project rights) amounting to EUR 115 thousand and corresponding deferred tax assets of EUR 39 thousand. If the affiliated companies had been included in the group of consolidated companies, to the extent possible, since the beginning of the reporting period, their cumulative revenues of EUR 0 thousand and their cumulative profit or loss contribution of EUR – 8 thousand would have been unchanged.

#### c) Associated companies

Associated companies are companies over which the Group is able to exert significant influence by virtue of an equity holding, but over which it does not exercise control. Normally, there is a rebuttable presumption that a 20 to 50 percent investment in the equity or voting rights of a company confers significant influence. Investments in associated companies are accounted for at equity. Upon initial recognition as an associated company, the investment in that company is measured at acquisition cost. If the acquisition cost is higher than the Group's proportional share of equity, as remeasured at the acquisition date, goodwill is recognised in the amount of the difference. Any necessary impairments are deducted from goodwill in subsequent periods. Moreover, the accumulated changes in equity are credited or charged to the carrying amount of the investment in subsequent periods.

The Group's share in the profit or loss of the associated company is recognised and presented separately in the consolidated income statement. If the proportional share of losses to be absorbed is higher than the acquisition cost and the unsecured receivables due from the associated company, no further impairment losses are recognised, unless the Group assumes additional commitments from the associated company.

As a general rule, intermediate profits and losses between the Group and the associated company are eliminated in the amount of the share of equity held in that company. For reporting purposes, the uniform recognition and/or measurement methods of the Group are applied to the financial statements of the associated companies.

The company Phönix SonnenFonds GmbH & Co. KG B1, in which the Group holds an equity interest of 31.2 percent, is organised as a German commercial partnership in the legal form of a limited partnership with a limited liability company as general partner (GmbH & Co. KG). For purposes of calculating the at-equity profit or loss, the separate financial statements prepared in accordance with the regulations of German commercial law were converted to IFRS. Along with IAS 32.18b), any recognition and measurement differences were observed in the corresponding ancillary statement.

## B. RECOGNITION AND MEASUREMENT METHODS

### (1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

#### REVENUE RECOGNITION

In the case of purchase agreements, revenue is recognised (IAS 18) when the goods are delivered (passage of risk); in the case of contracts for work and services, revenue is recognised when the work is accepted by the ordering entity. Delivery and acceptance are deemed to have occurred when, in accordance with the contractual agreements, the risks of ownership have been transferred to the buyer or accepting entity, the amount of consideration has been contractually stipulated and payment of the receivable is probable.

Service revenues are recognised when the service is rendered. The stage of completion is determined in accordance with the percentage-of-completion method, provided that the outcome can be measured reliably. If the outcome of a service cannot be measured reliably, the costs incurred are recognised to the extent that they are expected to be recoverable (zero-profit method). In those cases in which a loss is anticipated, that loss is recognised in the income statement.

Revenues are presented on a net basis, before value-added tax and after deduction of returns, rebates and discounts, and after elimination of intragroup transactions. They are measured as the payments received or the fair value of receivables recognised (i.e., the payments expected in respect of such receivables).

Interest income is accrued by application of the effective interest method. Dividends are recognised when a legal claim to dividends is constituted.

#### CONSTRUCTION CONTRACTS

Construction contracts are defined as customer orders that have not been completely filled. In accordance with IAS 11, the percentage-of-completion (PoC) method is used to account for construction contracts, provided that the result can be estimated reliably. Under that method, contract revenues and profits are recognised in the income statement in proportion to the stage of completion in the periods in which the work is performed. Thus, revenues and profits under fixed-price contracts are recognised on the basis of the stage of completion. Specifically, they are recognised in proportion to the ratio of the internal and external costs incurred at the reporting date to the total estimated costs of each contract (cost-to-cost method).

In those cases in which contract revenue cannot be estimated reliably, revenues are recognised in the amount of probably recoverable costs incurred (zero profit method). Such contracts are presented as receivables and payables under long-term construction contracts. If the capitalisable work performed exceeds the down payments received, construction contracts are presented as receivables under long-term construction contracts. If the balance after deduction of down payments received is negative, construction contracts are presented as payables under long-term construction contracts. Anticipated contract losses are recognised in full; in determining such losses, due consideration is given to discernible risks.

Borrowing costs that can be attributed directly to the acquisition or production of specific assets are added to the carrying amount of those assets, either as incidental acquisition costs or production costs. Under the PoC method, the corresponding interest costs reduce the profits from customer-specific construction contracts, as a component of production costs.

## (2) SPECIFIC BALANCE SHEET ITEMS

### **INTANGIBLE ASSETS**

In accordance with IAS 38, purchased intangible assets are measured at acquisition cost and amortised on a straight-line basis over their expected useful lives, provided that a useful life can be determined. There were no indications of a possible impairment in the trademark comprised within this item.

Internally generated intangible assets are capitalised only when the corresponding expenditures can be attributed to the development phase of the intangible assets in question. The costs must be clearly attributable to a development from which the Group can expect to receive future economic benefits; such inflow of benefits must last longer than one financial year. In addition, there must be an intention to complete the asset, it must be technologically feasible and the necessary resources for that purpose must be available. Production cost includes all directly allocable costs of development. Once recognised as expenses, development costs can no longer be capitalised. Until such time as the asset is completed, the capitalised development costs are subjected to an annual impairment test. As soon as the asset is ready for its intended use, internally generated intangible assets are amortised over their useful lives. Research expenses are not capitalised, but recognised as expenses in the period in which they are incurred.

In the case of intangible assets with determinable useful lives, the useful lives and the amortisation method applied are reviewed and adjusted, when necessary, at least as of every reporting date. Any such adjustment is made in connection with an estimation change, which is recognised in income in accordance with IAS 8.

Intangible assets have useful lives ranging from three to 15 years.

### **GOODWILL**

Goodwill is the amount by which the cost of an acquisition exceeds the purchased proportion of the fair values of identifiable assets and liabilities (including contingent liabilities) on the acquisition date. By application of IFRS 3 in conjunction with IAS 38, goodwill is not subjected to straight-line amortisation. At the end of the financial year, recognised items of goodwill were subjected to impairment tests to confirm the carrying amounts of those assets; in this connection, no need for impairment losses was discovered. For purposes of the impairment test, goodwill is allocated to the cash-generating units that are expected to derive economic benefits from the synergies arising from the underlying business combinations, regardless of whether other assets or liabilities have been assigned to these cash-generating units; the cash-generating units may correspond to the operating segments as the highest level.

### **PROPERTY, PLANT AND EQUIPMENT**

In accordance with IAS 16, items of property, plant and equipment are measured at acquisition cost less accumulated straight-line depreciation and impairments. The depreciation period is determined with reference to the expected economic useful life. Items of property, plant and equipment are depreciated pro rata temporis from the acquisition date. The residual carrying amounts, useful lives and depreciation method applied are reviewed at least at every year-end reporting date. If the expectations at that time differ from the previously applied estimates, the corresponding adjustments are made as changes of estimates in accordance with IAS 8. The acquisition or production cost comprises the purchase price, directly allocable costs required to bring the asset to its present location and condition as intended by the management, the estimated costs of demolition and clearance of the asset and the restoration of the site at which it was located. If an item of property, plant and equipment consists of more than one component with different useful lives, such material components are depreciated over their individual useful lives. Maintenance and repair costs are recognised in income in the period in which they are incurred.

Borrowing costs are capitalised to the extent that they are individually allocable to the acquisition of a qualifying asset. When an item of property, plant and equipment is retired or when no further economic benefits are expected from its continued use or retirement, the carrying amount of that asset is derecognised. The gain or loss on the derecognition of an item of property, plant and equipment, which is the difference between the net selling price and the carrying amount of the asset, is recognised as other operating income or other operating expenses as of the date of derecognition.

Depreciation is charged on a straight-line basis pro rata temporis over the useful lives, which currently range from three to 14 years.

#### **IMPAIRMENT OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT (EXCLUDING GOODWILL)**

An impairment test is conducted when there are indications of possible impairments of the carrying amounts of intangible assets with definite useful lives or property, plant and equipment. In such cases, the recoverable amount of the corresponding asset is determined in order to determine the extent of a possibly necessary writedown. The recoverable amount is equal to the fair value less costs to sell, or the value-in-use, whichever is higher. The value-in-use is equal to the present value of the expected future cash flows. If no recoverable amount can be determined for an individual asset, it is determined for the smallest identifiable group of assets (cash-generating unit) to which the asset in question can be attributed. For that purpose, the projected cash flows to be generated over the estimated useful life of the asset or cash-generating unit are estimated. The discount factor applied is determined on the basis of the risks associated with the asset or cash-generating unit. The estimated cash flows reflect the assumptions made by the management and are corroborated by external information sources. If the recoverable amount of an asset is less than the carrying amount, an impairment loss is immediately recognised in income. If the recoverable amount of an asset or cash-generating unit for which an impairment loss had been recognised would be higher in subsequent periods, the earlier impairment loss is reversed; the maximum carrying amount of an asset after reversal of an impairment loss is the amortised cost that would have resulted without an impairment loss. Such reversal of an impairment loss is recognised in income.

#### **LEASES**

Leases are classified as finance leases when substantially all the risks and rewards incident to ownership of the leased asset are transferred to the lessee. All other leases are classified as operating leases.

The rental and lease payments paid in connection with operating leases are determined once for the entire lease term, with due consideration given to contractually stipulated future changes in lease instalments. This determination is made as of the date of lease inception. The corresponding payments are recognised as expenses in the income statement on a straight-line basis over the entire term of the lease. If the original estimation of contractual elements, such as the exercise or non-exercise of a lease renewal option, changes during the lease term, such changes are recognised appropriately as a change of estimates.

The Phoenix companies rent buildings, company cars and operational and business equipment for their own use. These leases are classified as operating leases. The lease terms for buildings range from one to 17 years; the lease terms for company cars and copy machines range from one to four years.

#### **OTHER INVESTMENTS**

Other investments are noncurrent financial investments in equity instruments for which there is no active market with listed prices and the fair values of which cannot be determined reliably. Other investments are measured at cost, due to the range of variation of reasonable estimates of the fair value and the probabilities of occurrence of the different estimates.

**INVENTORIES**

In accordance with IAS 2, inventories are measured upon initial recognition at acquisition or production cost plus incidental costs and less purchase price deductions. Production cost comprises all directly allocable costs.

The acquisition costs of assets presented as trading stock were measured at weighted average prices.

In subsequent periods, items of reduced marketability are written down to the net realisable value if that amount is less than the acquisition or production cost.

The item of "work in progress" comprises unfinished structures on non-owned land which do not qualify for the accounting treatment according to IAS 11. If the net realisable value at the reporting date does not cover the production costs, the carrying amount presented in the balance sheet is written down to the net realisable value.

The expenses for write-downs of trading stock have been recognised in the income statement under the item of "Purchased goods and services". Write-downs of "work in progress" are recognised directly in the item of "Change in inventories".

Borrowing costs that can be directly attributed to the acquisition or production of individual assets are capitalised as incidental acquisition costs.

**ADVANCE PAYMENTS RENDERED**

Advance payments rendered are recognised as non-financial assets and measured at fair value at the acquisition date, which is usually equal to the amount of monetary consideration provided. In subsequent periods, the measurement of advance payments rendered depends on whether the corresponding supplier is capable on the reporting date of satisfying the advance payment with delivery of the corresponding non-monetary items.

**NON-DERIVATIVE FINANCIAL INSTRUMENTS**

Non-derivative financial instruments include, in particular, trade receivables, other receivables, loans, financial assets, securities and liquid assets, as well as financial liabilities and trade payables.

Upon initial recognition, non-derivative financial instruments are measured at fair value. Transaction costs in the course of the purchase of financial instruments (which are not carried at fair value) are capitalized. Transaction costs that are incurred by the purchase of financial instruments at fair value are recorded directly as expenses. In subsequent periods, non-derivative financial instruments are always measured at fair value or amortised cost, depending on the category to which they belong. The management determines the categorisation of non-derivative financial instruments at the time of initial recognition. If no separate market value is indicated in the notes to the financial statements, the market value is approximately equal to the carrying amount.

The following categories are applied for this purpose:

- Held-for-trading (HfT) assets are measured at fair value. If no market value is available, the fair value is determined with the aid of adequate measurement methods, such as discounted cash flow methods, for example. In the Phoenix Group, such financial instruments occur only in connection with hedging transactions (derivatives). The gains or losses arising on revaluation are recorded directly in income.
- Held-to-maturity (HtM) financial investments are measured at amortised cost. They generally do not occur in the Phoenix Group.
- Loans and receivables (LaR), which are not held for trading purposes, are measured upon initial recognition at fair value, as a general rule, and in subsequent periods at amortised cost. In the Phoenix Group, such assets include all receivables due from customers, other receivables and loans. Non-interest-bearing and low-interest receivables due in more than one year are discounted to present value, as a general rule, by application of the effective interest method. A risk-appropriate, customary market rate of interest was applied as the discount factor. Specific write-downs are charged, if necessary up to the full amount, against receivables which are not expected to be recoverable, with due consideration given to credit risks, interest rate risks and cash discount risks. General credit risk is accounted for by charging writedowns, which are determined on the basis of past experience values, as a general rule, against the receivables portfolio.
- As a general rule, available-for-sale (AfS) financial assets are measured at fair value. In the Phoenix Group, this category is mainly composed of the assets presented under "Other investments." The difference between the acquisition cost and fair value is recognised directly in equity, with due consideration given to deferred taxes. If the fair value is permanently or materially less than the carrying amount of such assets, the impairment loss is recognised in income. Other investments for which no market prices are available and the fair value of which cannot be determined reliably are measured at amortised cost. When there are indications of an impairment, an impairment test is conducted and any necessary impairment loss is recognised in income.
- Financial liabilities measured at amortised cost (AmC) are measured upon initial recognition at acquisition cost. In subsequent periods, such liabilities (with the exception of derivative financial instruments) are measured at amortised cost, which is usually equal to the settlement amount.

A financial asset or a component of a financial asset is derecognised when the company loses control over the contractual rights to receive cash flows related to the asset or when such contractual rights expire. That is usually the case when:

- The rights have been exercised;
- The rights have expired;
- The company has relinquished the rights or transferred them to a third party in connection with a sale;
- Contracts expire.

For the purpose of determining whether a loss of control has occurred, the legal and economic positions of both parties are taken into consideration. If there are indications to the effect that the Phoenix Group, as the transferring party, has retained control, the company will continue to recognise the asset in its consolidated statement of financial position. Any profit or loss on disposal is recognised in income.



#### **DERIVATIVE FINANCIAL INSTRUMENTS**

The Phoenix Group employs various derivative financial instruments to hedge existing or planned underlying transactions against currency risks, interest rate risks and market price risks; the most important of these are forward exchange deals, currency swaps and currency options, and interest rate swaps and interest rate caps. No derivative financial instruments are held or issued for speculation purposes.

In accordance with IAS 39, derivative financial instruments that are not integrated with an effective hedge instrument must be categorised as “held for trading” and therefore measured at fair value at the trade date, with changes in fair value recognised in income. The fair value of traded derivative financial instruments is equal to the market value. As a rule, the Phoenix Group only employs traded derivative financial instruments; if, however, market pricing is not possible and therefore no market values are available, the current market values are calculated by means of recognised financial-mathematical models, with due consideration given to the relevant exchange rates, interest rates and credit ratings of the counterparties. Middle exchange rates are applied for such calculations. At the present time, the Phoenix Group does not employ hedge accounting, so that changes in fair value of derivative financial instruments are recognised immediately in income.

The fair value of forward exchange deals, currency swaps and interest rate swaps is calculated as the difference between the forward exchange rate for the same final maturity applicable as of the reporting date and the contracted forward exchange rate. The fair value of currency options is determined with the aid of recognised option price models. Important input factors include the remaining life of the option, the risk-free interest rate, the fixing rate, the current exchange rate and the volatility. The fair value of interest rate caps is calculated as the present value of future interest payments, discounted by application of a market interest rate that is appropriate for the remaining term to maturity as of the reporting date. They are based on the Euribor liquid money market rate and have terms of several years, which are sub-divided into interest rate adjustment periods. The interest rate is the difference between the excess over the corresponding money market rate and the contractual cap rate.

Derivative financial instruments with positive fair values are presented as noncurrent or current “other current financial assets” and those with negative fair values are presented as noncurrent or current “other financial liabilities”, depending on their respective maturities.

Derivative financial instruments are derecognised only when the company loses control over the contractual rights to receive cash flows related to the asset or when such contractual rights have expired, in accordance with the accounting treatment applied for non-derivative financial instruments.

#### **CASH AND CASH EQUIVALENTS**

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

The changes in cash and cash equivalents according to IAS 7 are presented in the Cash Flow Statement.

#### **SUBSCRIBED CAPITAL AND ADDITIONAL PAID-IN CAPITAL RESERVES**

Equity instruments without auxiliary conditions are always presented as equity.

Costs incurred in connection with an issue of equity instruments are deducted from equity along with any income tax advantage (“net-of-tax”).

### SHARE-BASED PAYMENT TRANSACTIONS

Share-based payment transactions are accounted for in accordance with IFRS 2. Thus, share-based compensation is measured at the fair value of the consideration provided, as a general rule. All transactions with employees under which equity instruments in the company are issued as consideration for goods or services received are deemed to be share-based payment transactions. Because the fair value of work provided usually cannot be determined, the fair value of the equity instruments granted in exchange for such work is applied instead. The Phoenix Group applies the rules applicable to “equity-settled share-based payment transactions,” so that the fair value is determined with reference to the date of granting of the equity instrument, on the one hand, and the exclusively share-based performance targets, on the other hand. The associated personnel expenses are distributed on a straight-line basis over the lock-up period or vesting period and recognised in equity.

All stock option plans are described in Note (40).

### NON-CONTROLLING INTERESTS

In accordance with IAS 27, non-controlling interests (minority interests) are presented as a separate line item within equity in the consolidated balance sheet. Pro-rated losses are charged to the respective non-controlling interests in proportion to the percentage of Group equity they hold, even when that leads to a negative balance for non-controlling interests.

### PROVISIONS

In accordance with IAS 37, “other provisions” are recognised when a present obligation, legal or constructive, has arisen as a result of a past event, and when the probability that an outflow of resources embodying economic benefits will be required to settle the obligation is greater than 50 percent and when the amount of the obligation can be estimated reliably. The “other provisions” cover all discernible obligations. Provisions for one-off events are measured on the basis of the best estimate and provisions for large populations of events are measured on the basis of an expected value.

Other provisions are recognised for all discernible risks and uncertain obligations in the amount of their probable occurrence based on best estimates. Noncurrent provisions are discounted to present value by application of a market rate of interest. Compounding amounts and the effects of changes in interest rates are presented within the financial result.

A recovery associated with a provision is capitalised as a separate asset when necessary, provided that collection of that amount is as good as certain. Presentation of netted amounts within the provisions is not permitted. Depending on the circumstances, advance payments rendered at the reporting date are deducted from the provisions.

Unconditional obligations resulting from the site restoration of property, plant and equipment are recognised as liabilities, provided that a reliable estimate is possible, in the period in which they are incurred and are measured at the present value of the associated settlement amounts. At the same time, the carrying amounts of the corresponding items of property, plant and equipment are increased by the same amount. In subsequent periods, the capitalised site restoration costs are amortised over the expected remaining useful life of the corresponding asset, while the provision is compounded annually.

Changes in estimates concerning the amount or timing of cash outflows are recognised in income as of every reporting date.

**FINANCIAL LIABILITIES**

Upon initial recognition, financial liabilities are measured at fair value, which is usually equal to the settlement amount.

Trade payables and other non-derivative financial liabilities are measured at amortised cost by application of the effective interest method, as a general rule. With respect to financial liabilities, the Group has not exercised the option of designating them as financial liabilities at fair value through profit or loss upon initial recognition.

Financial liabilities are derecognised when the payment obligations related to them have expired.

**NON-FINANCIAL LIABILITIES**

As a general rule, liabilities are measured at fair value, which is equal to the settlement amount in the majority of cases. Liabilities due in more than one year are discounted to present value by application of the effective interest method.

Liabilities for outstanding costs and for other business-related obligations are measured on the basis of the expected goods or services still to be provided.

**CONTINGENT LIABILITIES/ASSETS**

Contingent liabilities are defined as possible obligations to third parties, the actual existence of which, however, depends on the occurrence of one or more uncertain future events, which cannot be completely influenced. They are also defined as obligations that will probably not lead to an outflow of economic benefits, or when the amount of such an outflow cannot be reliably measured. In accordance with IAS 37, contingent liabilities are not recognised in the balance sheet; contingent liabilities related to a business combination are measured at fair value upon initial recognition.

Possible assets, the recovery of which depends on future events that are not under the control of the Phoenix Group (contingent assets) are not recognised as assets.

**INCOME TAXES****a) Current taxes**

The tax bases for current taxes are determined on the basis of the respective taxpaying entities; they are measured at the tax rate in effect on the reporting date. They are presented within the item of "Current tax liabilities or assets."

Changes in current tax liabilities or assets are recognised in income.

Current tax assets and current tax liabilities are only netted when one of the Phoenix companies has a legal right and the intention to settle on a net basis.

When taxes refer to line items that have been directly credited to or charged against equity in accordance with IFRS requirements, such taxes are likewise recognised in equity, with no effect on the income statement.

### b) Deferred taxes

IAS 12 requires application of the liability method and balance sheet approach for determining deferred taxes. Accordingly, deferred tax assets and/or liabilities must be recognised for temporary differences between the tax bases and the carrying amounts of the respective assets and liabilities, which will reverse in the future and give rise to income tax effects, and for consolidation transactions to be recognised in income and tax loss carry-forwards.

Deferred tax assets and deferred tax liabilities are measured with reference to the tax rates that are expected to be in effect when an asset is recovered or a liability settled. Only those tax rates that are in effect or have been announced as of the reporting date are applied for this purpose.

Deferred tax assets and deferred tax liabilities are not discounted to present value.

Deferred taxes are recognised as income or expenses and in profit or loss for the period, with the exception of the following transactions:

- A transaction was recognised directly in equity;
- In the case of a business combination;
- In the case of temporary differences between the tax base of an investment and the corresponding proportional IFRS equity, if it is expected that this difference will not change in the near future, as by way of a dividend payment, for example.

In cases when the tax arises on a business combination accounted for as an acquisition, it is recognised as an identifiable asset or liability on the acquisition date, in conformity with IFRS 3.

Deferred tax assets and deferred tax liabilities are netted only when one of the Phoenix companies has a legal right to settle on a net basis and when they are levied by the same taxing authority on the same entity that intends to realise the asset and settle the liability at the same time.

Deferred tax assets are recognised only to the extent that the associated tax reductions are likely to occur in the future.

### (3) DIVIDEND DISTRIBUTION

To the extent that the Phoenix Group makes its proposals concerning the utilisation of profit or concrete dividends accessible to the public after the reporting date, such dividends are presented not as a liability at the reporting date because the dividend payment is not to be recognised in the balance sheet.

#### (4) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions, meaning those that are not the functional currency of the respective Group company, are translated at the exchange rates applicable on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate on the reporting date. Foreign exchange gains and losses are recognised in income. Non-monetary items (in the Phoenix Group consisting mainly of inventories and advance payments rendered on inventories), which are measured at historical acquisition cost, are translated at the exchange rate on the transaction date, in accordance with IAS 21.23b).

For purposes of preparing the consolidated financial statements, the separate financial statements of the subsidiaries Phoenix Solar Incorporated, Phoenix Solar Pte. Ltd., Phoenix Solar Pty Ltd and Phoenix Solar L.L.C. are translated in accordance with the functional currency concept. The functional currency of these companies is the US dollar (USD), the Australian dollar (AUD) and the Omani rial (OMR), respectively; the corresponding items are translated into euros for purposes of their inclusion in the consolidated financial statements. With the exception of equity, balance sheet items are translated at the exchange rate on the reporting date and income statement items are translated at the average exchange rate for the year. The average exchange rate for the year is calculated by means of weighting the respective exchange rates on the last day of every month. Equity is carried forward on the basis of the exchange rate applied upon initial recognition. The currency difference resulting from the translation of equity is recognised not in income, but directly in the “currency translation reserve” and presented separately in the balance sheet.

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2010	Average exchange rate in 2010	Exchange rate on reporting date 2009	Average exchange rate in 2009
USD / EUR	1.3252	1.3275	1.4406	1.3963
AUD / EUR	1.3039	1.4448	1.6008	1.7656
JPY / EUR	108.53	110.12	133.16	130.34
OMR / EUR	0.5083	0.5088	0.5497	0.5663
SGD / EUR	1.7102	1.8088	2.0218	2.3071
MYR / EUR	4.0800	4.2634	–	–

## C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement was prepared in accordance with the cost summary method.

### (1) REVENUES

The total revenues, including revenues from long-term construction contracts, were divided among the operating segments as follows:

Revenues	2010 k€	2009 k€
Components & Systems	368,412	299,004
Power Plants	267,220	173,974
Other	44	54
<b>Total</b>	<b>635,676</b>	<b>473,032</b>

Revenues and the breakdown of revenues by operating segments and regions are presented in the segment report in these notes to the consolidated financial statements (see Note (34)).

As of the reporting date, total revenues included revenues from long-term construction contracts (according to IAS 11) which had not yet been finally invoiced, in the amount of EUR 115,906 thousand (PY: EUR 61,845 thousand).

### (2) INCREASE OR DECREASE IN WORK IN PROGRESS

This item presents the increase or decrease in inventories related to work in progress, for those projects that are not to be classified as customer-specific contract construction according to IAS 11. This item comprises two foreign projects that are in the starting phase.

### (3) OTHER OPERATING INCOME

Other operating income	2010 k€	2009 k€
Income from payment of claims for damages	275	13
Remuneration in kind	214	176
Income from reversal of provisions and liabilities	817	1,249
Electricity income	1,452	1,103
Income from disposal of property, plant and equipment	3	2
Income from reversal of writedowns	86	625
Income from foreign exchange gains	0	230
Licensing income	34	0
Consulting income	333	0
Other	1,634	499
<b>Total</b>	<b>4,848</b>	<b>3,897</b>

Electricity income consisted of remuneration for power grid feeds attributed to the Phoenix Group in connection with project-related pilot operations on the basis of contractual agreements.

The income from foreign exchange gains consisted of income from the translation of transactions denominated in foreign currency to the functional currency and income from the realisation of the forward exchange deals, swaps and options serving as hedges for such transactions.

The income from the reversal of provisions and liabilities pertained to a large number of provisions recognised in prior years, which have not been fully consumed. They are usually recognised for period accrual purposes in connection with individual project completion stages and the anticipated specific project expenses. The total costs, as well as any additional costs or cost reductions to be included in the price, can only be concretised during the course of the projects in question. A significant proportion of the reversals were related to market entries, for which the Group still does not possess the necessary data for estimating the project costs. On the other hand, the expenses of provisions that had not been adequately funded in prior years are assigned to the respective primary cost type.

The income from payments of claims for damages consisted mainly of payments received in connection with the adjustment of claims related to contractual relationships in the project business, dealings with shipping companies, etc.

Licensing income consisted of remuneration for the use of a joint technological development for base frames between the Phoenix Group and a supplier from the year 2007. The agreement stipulates that in case of the usage or sale of this development in projects in which Phoenix is not involved, Phoenix is entitled to a fixed revenue percentage.

The other operating income comprised items that cannot be assigned to any of the foregoing items, including income from training services and other services of the Group, and the result of a value-added tax audit, in the amount of EUR 1,115 thousand.

#### (4) PURCHASED GOODS AND SERVICES

Purchased goods and services have been stated net of discounts granted, rebates and other deductions. They were divided among purchased goods and services as follows:

Purchased goods and services	2010 k€	2009 k€
Expenses of purchased goods	470,481	369,022
Expenses of purchased services	83,892	45,349
<b>Total</b>	<b>554,373</b>	<b>414,371</b>

The expenses of purchased goods consisted mainly of expenses for the procurement of solar modules, inverters and other materials related to the operation of photovoltaic systems.

The expenses of purchased services resulted mainly from the procurement of third-party input services for key components, as well as services related to the construction of photovoltaic power plants under long-term construction contracts.



## (5) PERSONNEL EXPENSES

The personnel expenses break down as follows:

Personnel expenses	2010 k€	2009 k€
Wages and salaries	19,082	12,631
Expenses of stock option plans	1,264	1,074
Social security	3,199	2,276
Pension and other benefits	41	36
<b>Total</b>	<b>23,586</b>	<b>16,017</b>

Since 1 July 2008, the company has offered all its employees a defined contribution pension plan based on salary deferral. The company makes matching payments on the contributions of the participating employees in accordance with the regulations of tax law and social security law. In the past financial year, an employer contribution of EUR 41 thousand (PY: EUR 36 thousand) was recognised as an expense in the income statement. The Group has not extended any defined benefit pension commitments.

The expenses for other pension benefits amounted to EUR 4 thousand (PY: EUR 4 thousand). These expenses resulted from direct insurance plans and contributions under the Capital Formation Act.

Other stock options were issued in the reporting year (see Note (40)). The expenses presented in the income statement include the expenses of stock option plans to be recognised rateably over the service period.

The average number of employees during the financial year is presented in the table below:

Employees (m/f)	2010	2009
Members of the Executive Board (parent company)	5	5
Permanent employees (m/f) (full-time and part-time)	283	211
Temporary employees	25	24
<b>Total</b>	<b>313</b>	<b>240</b>

## (6) DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to EUR 1,094 thousand in financial year 2010 (PY: EUR 667 thousand). A detailed presentation can be found in the Statement of Changes in Noncurrent Assets in Note (15).

(7) OTHER OPERATING EXPENSES

Other operating expenses	2010 k€	2009 k€
Administrative expenses	12,081	8,243
Selling expenses	9,784	6,638
Operating expenses	2,344	1,143
Other expenses	1,084	820
<b>Total</b>	<b>25,293</b>	<b>16,844</b>

Expenses from operating leases amounted to EUR 2,763 thousand in financial year 2010 (PY: EUR 2,045 thousand).

The administrative expenses incurred in financial year 2010 included losses of EUR 40 thousand on the translation of transactions denominated in foreign currencies to the reporting currency (PY: EUR 4 thousand).

Selling expenses are composed of both direct sales expenses related to the performance of the sales function, primarily for sales commissions, packing for shipping, transport and transport insurance, freight, product-related and order-related market research, customer consulting services and bid preparation, as well as overhead sales expenses such as expenses of market research, advertising and promotion, including the participation in exhibitions and trade fairs, warehousing, sales offices, the processing of requests for quotes and orders, bid costing, statistics, invoicing, payment reminders and the management of the overall process.

Research and development costs in the amount of EUR 163 thousand were recognised as expenses in financial year 2010 (PY: EUR 18 thousand).

(8) INCOME FROM ASSOCIATED COMPANIES

Income from associated companies amounted to EUR 58 thousand in financial year 2010 (PY: EUR 18 thousand).

(9) FINANCIAL RESULT

The financial result was EUR 1,010 thousand lower than the prior-year figure. Interest expenses in the amount of EUR 2,483 thousand (PY: EUR 1,660 thousand) were incurred mainly for short-term financing credits and negative fair values of interest rate derivatives; interest income in the amount of EUR 231 thousand (PY: EUR 418 thousand) was earned mainly on call money accounts. As in the prior year, no interest was capitalised in respect of qualifying assets in financial year 2010.

(10) INCOME TAXES

Current and deferred tax expenses and income broke down as follows:

Income taxes	2010 k€	2009 k€
Current taxes	8,874	2,294
Deferred taxes	1,140	85
<b>Total</b>	<b>10,014</b>	<b>2,379</b>

The recognised income tax expenses of EUR 10,014 thousand in financial year 2010 (PY: EUR 2,379 thousand) were EUR 897 thousand higher than the expected income tax expenses of EUR 9,117 thousand (PY: EUR 2,919 thousand), which would have resulted theoretically from the application of the domestic tax rate of 26.7 percent (PY: 26.7 percent) to the consolidated profit before income taxes.

The difference between the expected and recognised income tax expenses can be attributed to the following causes:

Reconciliation Statement	2010 k€	2009 k€
Profit before income taxes	34,148	10,934
Income taxes calculated by application of theoretical tax rate 26.7 % (PY: 26.7 %)	9,117	2,919
Changes in income tax expenses as compared to the calculated income tax expenses resulting from:		
– Non-period income taxes	266	– 789
– Tax effect of non-deductible expenses for stock options	338	290
– Tax effect of other non-deductible expenses	41	175
– Tax effect of differing tax rates	87	79
– Tax effect arising from the application of tax loss carry-forwards not previously recognised (–) and from the non-recognition of losses (+)	– 88	37
– Tax effect of differing tax bases	44	45
– Other differences/ consolidation	208	– 377
<b>Total</b>	<b>10,014</b>	<b>2,379</b>
Effective tax rate	29.3 %	21.8 %

The calculated income tax rate resulted from the German local business income tax (10.92 percent), the application of the corporate income tax rate (15 percent) and the solidarity surtax (5.5 percent of corporate income tax).

The item “Tax effect of differing tax rates” resulted mainly from the application of different tax rates for the Group’s foreign subsidiaries and business establishments. The foreign income tax rates range from 12 percent to 40 percent.

Income tax expenses and income are broken down as follows:

Income taxes	2010 k€	2009 k€
Current taxes	8,874	2,294
– thereof in Germany	8,780	2,227
– thereof in foreign countries	94	67
Deferred taxes	1,140	85
– thereof in Germany	1,866	498
– thereof in foreign countries	– 726	– 583
<b>Total</b>	<b>10,014</b>	<b>2,379</b>

The German court system made a ruling on the taxation of stock option plans with conditional capital increase clauses in 2010. Under that ruling, “equity-settled” plans are completely ineligible for tax deductions, so that the Group will now incur a significant expenses that are not proportionally deductible for income taxes and its tax rate will be higher. (See Note (40) for information on the Group’s Stock

Option Plan of the Group). The changed method of calculating the tax expenses of prior years gave rise to non-period tax expenses of EUR 266 thousand.

Deferred taxes can be attributed to the following balance sheet items:

Deferred taxes by balance sheet item	2010 k€	2009 k€
<b>Deferred tax assets</b>		
Measurement of derivatives	50	135
Loss carry-forwards capitalised	1,641	856
Measurement of provisions	167	81
Other	134	505
<b>Total</b>	<b>1,922</b>	<b>1,577</b>
– thereof current	1,755	1,428
– thereof noncurrent	167	149
<b>Deferred tax liabilities</b>		
Internally generated intangible assets	2	1
Property, plant and equipment	30	17
PoC measurement of construction contracts	2,469	1,202
Measurement of derivatives	0	38
Measurement of inventories	602	265
Accrued financing costs	49	102
Other/ consolidation	84	126
<b>Total</b>	<b>3,236</b>	<b>1,751</b>
– thereof current	3,170	1,458
– thereof noncurrent	66	293

In total, deferred taxes of EUR 123 thousand (PY: EUR 237 thousand) were netted with each other. All changes in deferred taxes in the reporting period 2010 and 2009 were recognized as tax income.

The subsidiaries of Phoenix Solar AG generated a tax loss of EUR 2,246 thousand in financial year 2010 (PY: EUR 3,423 thousand) for most of which deferred tax assets were recognised. The total amount of non-recognised losses was EUR 65 thousand (PY: EUR 338 thousand). Loss carry-forwards that can be carried forward for no more than five years were recognised in the amount of EUR 4,158 thousand (PY: EUR 3,085 thousand); loss carry-forwards that can be carried forward for no more than 20 years were recognised in the amount of EUR 1,447 thousand (PY: EUR 0 thousand). For the above stated tax loss carry-forwards and temporary differences, deferred tax assets were formed, as the management expects to recover these tax assets in the foreseeable future due to sufficient planned taxable income. That applies particularly to the new subsidiary formed in the United States in financial year 2010, which recognised start-up losses in the amount of EUR 1,447 thousand as of the reporting date.

As in the prior year, no deferred taxes were recognised for outside basis differences in financial year 2010 because most of the subsidiaries did not have net assets that would allow for dividend distributions as of the reporting date, or any such funds were intended for the purpose of internally funding the respective subsidiaries; outside basis differences of EUR 1,815 thousand were calculated as of 31 December 2010 (PY: EUR 1.868 thousand).

By reason of the fact that the capital increase costs incurred in financial year 2010 are deductible, current income taxes of EUR 118 thousand were recognised directly in equity.

#### (11) EARNINGS PER SHARE

In accordance with IAS 33, the earnings per share are calculated from the consolidated profit after taxes and after non-controlling interests and from the average number of shares outstanding in the past financial year.

<b>Basic earnings per share</b>	<b>2010</b>	<b>2009</b>
Consolidated profit after taxes (in k€)	23,987	8,555
Average number of shares outstanding in the financial year (in units)	7,017,008	6,697,368
<b>Basic earnings per share (in €)</b>	<b>3,44</b>	<b>1,28</b>

For purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is corrected by the number of potential diluting shares. The number of potentially diluting shares is calculated by determining the hypothetical number of bonus shares that would have to be granted on the basis of the ratio of the share price to the exercise price. The Stock Option Plan of the Phoenix Solar Group causes such a potential dilution. The exercise of the stock options granted in connection with these plans depends on the price development of the shares of Phoenix Solar AG. For calculating this share price development, certain performance criteria that are defined in the Stock Option Plan were applied. A detailed description of the Stock Option Plan of the Phoenix Group can be found in Note (40).

<b>Diluted earnings per share</b>	<b>2010</b>	<b>2009</b>
Consolidated profit after taxes (in k€)	23,987	8,555
Average number of shares outstanding (in units)	7,017,008	6,697,368
Correction for potentially diluting shares	0	4,716
Average number of shares outstanding (including potentially diluting shares)	7,017,008	6,702,084
<b>Diluted earnings per share (in €)</b>	<b>3.44</b>	<b>1.28</b>

As of 31 December 2010, the Group disposed of Authorised Capital after partial utilisation in the amount of EUR 2,681,0 thousand, which was not included in the calculations, however, because no diluting effect will arise from that fact in the current period. The Contingent Capital of EUR 2,814.0 thousand was included in the calculation of the diluted earnings per share only to the extent that stock options have already been issued.

The consolidated profit after taxes for 2010 was added to the distributable profit as of 31 December 2010. The Executive Board of Phoenix Solar AG proposes the distribution of a dividend of EUR 0.35 (PY: EUR 0.20) per share on 7,372,700 shares.

## D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (12) INTANGIBLE ASSETS

For information on the development of carrying amounts, please refer to the Consolidated Statement of Changes in Noncurrent Assets (Note (15)).

Phoenix Solar AG developed a new frame technology for mounting photovoltaic modules. This technology is protected by a utility patent. It was recognised in the balance sheet as an internally generated intangible asset and measured at the production cost of EUR 29 thousand. Since the development was completed and the technology commissioned in 2007, amortisation was begun over a useful life of three years. Two projects reached the stage of marketable development in financial year 2010, so that the corresponding costs were capitalised for the first time. One project relates to an assembly system for rooftop designs in connection with photovoltaic plants and the other project relates to a planning software program. Anticipated beginning of useful life is planned for 2011 and each one of these items is expected to have a useful life of three years.

Scheduled amortisation is presented in the income statement under the item of “Depreciation and amortisation”. There was no need to recognise impairment losses either in financial year 2010 or in the previous year.

Significant intangible assets	Carrying amount as of 31/12/2010 k€	Carrying amount as of 31/12/2009 k€	Remaining amortisation period
ERP software	2,376	1,234	5 years
“Phoenix” trademark	188	219	6 years
Development costs	194	0	2 years

In addition, the purchased intangible assets comprise license rights to use the system software and application software products of various different vendors.

### (13) GOODWILL

The goodwill of the Phoenix Solar Energy Investments AG (EUR 272 thousand), which was acquired effective 15 March 2002, was recognised upon initial consolidation. Phoenix Solar Energy Investments AG was merged with Phoenix Solar AG on 31 December 2009.

As of 1 January 2008, the initial consolidation of the company Renewable Energies Development 2002 (RED 2002) S.r.l. in Rome, which had formerly been accounted for at equity, gave rise to goodwill in the amount of EUR 235 thousand.

The allocation of goodwill amounts to cash-generating units (CGUs) is presented in the table below:

Goodwill	31/12/2010 k€	31/12/2009 k€
Power Plants	272	272
Components & Systems	235	235
Other	26	26
<b>Total</b>	<b>533</b>	<b>533</b>

In accordance with IFRS 3 in conjunction with IAS 38, goodwill items are not subjected to systematic amortisation. Instead, an annual impairment test is conducted to review the substantive value of goodwill. For that purpose, the carrying amount of the cash-generating unit is compared with its future income value. The future income value is calculated by application of the discounted cash flow method. Current forecasts based on the three-year medium-term plan approved by the management and used also for internal purposes, which are mostly backed by external data on market trends, are applied for that purpose. Significant assumptions applied by the management for the purpose of calculating the recoverable amounts include forecasts of market volumes, market prices and the availability of solar modules, inverters and other goods related to the company's portfolio, as well as regulatory developments, growth rates and capital costs. The expected future cash flows of the cash-generating unit, which are based on the three-year medium-term plan, are discounted to present value by application of a weighted average capital cost rate before income taxes of 8.01 percent for the domestic business (PY: 7.76 percent), and of 9.57 to 10.84 percent for the foreign companies (PY: 10.21 percent). For purposes of calculating a perpetual annuity, a growth factor of 1 percent was assumed like the year before. An impairment loss is deemed to have occurred when the future income value is less than the carrying amount.

No impairment losses needed to be recognised in financial year 2010. Even assuming that the revenues of one of the cash-generating units would be 5 percent less or that interest rates would be 10 percent higher, no need for impairment losses would arise. In the Phoenix Group, the annual impairment test of goodwill on the level of the cash-generating units is conducted in the local currency in the fourth quarter of every financial year.

### (14) PROPERTY, PLANT AND EQUIPMENT

For information on the development of carrying amounts, please refer to the Consolidated Statement of Changes in Noncurrent Assets (Note (15)).

This item was mainly composed of operational and office equipment and leasehold improvements.

As in the previous year, no impairment losses needed to be recognised in financial year 2010.



(15) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in noncurrent assets within the Phoenix Group:

	Acquisition or production cost				Balance at 31/12/
	Balance at 01/01/	Acquisition in financial year 2010	Disposal in financial year 2010	Currency translation	
	k€	k€	k€	k€	k€
<b>2010</b>					
Internally generated intangible assets	29	194	0	0	223
Acquired intangible assets	2,887	1,553	0	0	4,440
Goodwill	533	0	0	0	533
Operational and office equipment	2,995	1,098	159	11	3,945
Fixtures and fittings	1,162	43	0	0	1,205
<b>Total noncurrent assets</b>	<b>7,606</b>	<b>2,888</b>	<b>159</b>	<b>11</b>	<b>10,346</b>
<b>2009</b>	<b>01/01/</b>				<b>31/12/</b>
Internally generated intangible assets	29	0	0	0	29
Acquired intangible assets	1,161	1,739	13	0	2,887
Goodwill	533	0	0	0	533
Operational and office equipment	2,041	957	8	5	2,995
Fixtures and fittings	601	561	0	0	1,162
<b>Total noncurrent assets</b>	<b>4,365</b>	<b>3,257</b>	<b>21</b>	<b>5</b>	<b>7,606</b>

(16) SHARES IN ASSOCIATED COMPANIES

As an associated company, Phönix SonnenFonds GmbH & Co. KG B1 (KG B1) is accounted for by application of the equity method.

The carrying amounts showed the following development in financial year 2010:

	2010	2009
	k€	k€
Carrying amount at 01/01/	404	436
+ Acquisition	0	0
- Disposal	0	0
- Dividends	- 44	- 50
+ Profit shares	58	18
<b>Carrying amount at 31/12/</b>	<b>418</b>	<b>404</b>

Accumulated amortisation and depreciation						
Balance at 01/01/	Acquisition in financial year 2010	Disposal in financial year 2010	Currency translation	Balance at 31/12/	Carrying amounts 31/12/2010	Carrying amounts 31/12/2009
k€	k€	k€	k€	k€	k€	k€
27	2	0	0	29	194	2
818	348	2	0	1,164	3,276	2,069
0	0	0	0	0	533	533
1,264	640	159	2	1,747	2,199	1,731
188	104	0	0	292	912	974
2,297	1,094	161	2	3,232	7,114	5,309
01/01/				31/12/	31/12/2009	31/12/2008
17	10	0	0	27	2	12
626	195	3	0	818	2,069	535
0	0	0	0	0	533	533
879	386	2	1	1,264	1,731	1,162
112	76	0	0	188	974	489
1,634	667	5	1	2,297	5,309	2,731

These items were measured on the basis of separate company financial statements, which were converted to IFRS.

Aggregated financial information on the associated company	2010 k€	2009 k€
Assets	851	951
Liabilities	5	5
Revenues	142	167
Equity*	846	946
Total assets	851	951
<b>Profit for the year</b>	<b>58</b>	<b>56</b>

\* For presentation purposes, the capital of KG B1 was presented as equity although it would be classified as debt capital according to IAS 32 if applicable, due in particular to the partners' claim to payment of an indemnity.

(17) OTHER INVESTMENTS

The item of “other investments” includes the cooperative share in a bank and a 50-percent share in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, which was founded in financial year 2007. In 2010, that company had assets of EUR 1,582 thousand (PY: EUR 1,327 thousand), liabilities of EUR 1,285 thousand (PY: EUR 1,038 thousand), revenues of EUR 0 thousand (PY: EUR 0 thousand) and a profit before taxes of EUR 13 thousand (PY: EUR 13 thousand). SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, in turn, holds a 100 percent equity stake in KALENTA Solar M.E.P.E. Greece, a shelf company for project planning work in Greece. Caused by the lack of an effective significant influence, the company is measured at cost. Due to the uncertainties inherent in the business model and the industry-specific regulations in Greece, the carrying amount of EUR 160 thousand (PY: EUR 160 thousand) is largely equal to the fair value.

(18) NONCURRENT RECEIVABLES

The item of noncurrent receivables includes, among other things, a purchase price receivable in the amount of EUR 450 thousand, which has been deferred until 31 December 2023. It bears interest at the rate of 5.5 percent p. a. until 31 December 2015 and at the rate of 6.0 percent p. a. from 1 January 2016 to the date of payment in full.

This item also includes a prepaid lease expense item of EUR 196 thousand (PY: EUR 207 thousand) for land in Italy. It also includes a loan in the amount of EUR 30 thousand, which matures on 30 June 2012. It bears interest at the rate of 6.5 percent p. a.

(19) INVENTORIES

The inventories broke down as follows:

	2010 k€	2009 k€
Trading stock	153,301	72,470
Write-down	- 3,928	- 3,285
<b>Net value of trading stock</b>	<b>149,373</b>	<b>69,185</b>
Work in progress	163	0
Write-down	0	0
<b>Net carrying amount</b>	<b>163</b>	<b>0</b>
<b>Amount stated in the balance sheet</b>	<b>149,536</b>	<b>69,185</b>

The trading stock inventory consisted mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering. The inventory usually has duration of less than a reporting period. Of the total trading stock, an amount of EUR 33,117 thousand (PY: EUR 25,488 thousand) related to insured goods in transit.

Based on the estimation of the Executive Board that certain sales revenues will probably be lower than acquisition costs, such inventories were written down to the lower net realisable value less costs to sell.

As of 31 December 2010, the carrying amount of trading stock measured at net realisable value less costs to sell amounted to EUR 45,567 thousand (PY: EUR 4,386 thousand). The expenses of the corresponding write-downs amounted to EUR 3,928 thousand (PY: EUR 2,102 thousand).

The carrying amount of inventories recognised as period expenses amounted to EUR 470,481 thousand (PY: EUR 369,022 thousand); at the same time, reversals of write-downs have been recognised in the amount of EUR 1,723 thousand (PY: EUR 0 thousand), to account for higher market prices.

The inventories presented in the balance sheet were subject to the (extended) retention-of-title arrangements that are customary in the case of purchase agreements.

#### (20) ADVANCE PAYMENTS RENDERED

The item of advance payments rendered consisted mainly of advance payments to sub-contractors and suppliers, which are secured by guarantees. All such payments are short-term, mostly project-related advance payments.

#### (21) RECEIVABLES AND PAYABLES UNDER LONG-TERM CONSTRUCTION CONTRACTS

As of the reporting date, gross receivables under long-term construction contracts amounted to EUR 120,790 thousand (PY: EUR 58,943 thousand). Most of these receivables relate to projects in Germany. Contract revenues of EUR 116,138 thousand (PY: EUR 61,845 thousand), contract costs of EUR 105,591 thousand (PY: EUR 55,471 thousand) and profits of EUR 10,547 thousand (PY: EUR 4,944 thousand) were recognised. The profits included foreign currency effects in the amount of EUR 77 thousand. Losses in the amount of EUR 47 thousand (PY: EUR 1,164 thousand) were recognised as expenses in respect of contracts that are expected to conclude with a negative profit margin.

Down payments of EUR 61,332 thousand (PY: EUR 17,871 thousand) were collected on account of contracts and other down payments of EUR 24,302 thousand (PY: EUR 33,399 thousand) were requested on account of contracts.

In consideration of the requested and recognisable down payments and partial invoices, the presented amount of EUR 82,227 thousand (PY: EUR 41,072 thousand) breaks down as follows:

	31/12/2010 k€	31/12/2009 k€
Receivables under long-term construction contracts after deduction of partial invoices based on stage of completion	57,925	15,721
Plus requested and recognisable partial invoices	24,302	25,351
<b>Amount presented in the balance sheet</b>	<b>82,227</b>	<b>41,072</b>

The borrowing costs of EUR 2,001 thousand (PY: EUR 592 thousand) recognised in connection with long-term contract construction were capitalised as project costs; an interest rate of 3.4 to 3.5 percent (PY: 3.4 to 3.5 percent) was applied as the borrowing cost rate.

Payments in respect of receivables under long-term construction contracts are expected in the time periods presented in the table below. In this regard, it was assumed firstly that work under contracts in progress will be completed in time for every one of the planned work stages (so-called "milestones") stipulated in the payment agreements, and secondly that no significant delays will occur between the date of contractual fulfilment of the milestone conditions and the corresponding payment inflows. In that respect, the presentation differs from the presentation of delayed payment of trade receivables, for example (see Note (22)).

	Carrying amount	Expected receipt of payment			
		Fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	More than 360 days
	k€	k€	k€	k€	k€
<b>Per 31/12/2010</b>					
Receivables under long-term construction contracts	82,227	285	1,552	80,390	0
<b>Per 31/12/2009</b>					
Receivables under long-term construction contracts	41,072	0	1,189	39,883	0

For the security of receivables from long-term construction contracts the Phoenix Group demands in addition to the mandatory contractor lien, and usually agreed milestone payment amounts, in line with industry standards customer financing commitments funded by its financial institutions, bank guarantees or any proper security deposits. Unpaid materials are also subject to the retention-of-title arrangements.

## (22) TRADE RECEIVABLES

The trade receivables break down as follows:

Trade receivables	31/12/2010	31/12/2009
	k€	k€
Gross receivables	33,822	26,368
less write-downs	- 2,682	- 1,861
<b>Amount presented in the balance sheet</b>	<b>31,140</b>	<b>24,507</b>

The fair values of trade receivables are equal to their carrying amounts. Although the payment terms applied are determined on the basis of customer-specific credit ratings and regional practices relatives to payment dates, write-downs charged against receivables that are expected to be uncollectible and write-downs charged on a portfolio basis were unavoidable.

In the table below, the maturity structure of receivables is presented without write-downs; in contrast to the presentation of receivables under long-term construction contracts (see Note (21)) the amounts presented in the table below were past due according to the respective payment terms by the length of time indicated therein for the receivables realised, but not yet subjected to write-downs at the reporting date:

	Total	Neither written down nor due for payment	Not written down and due for payment at the reporting date			
			Since fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	Since more than 360 days
	k€	k€	k€	k€	k€	k€
<b>As of 31/12/2010</b>						
Trade receivables	31,140	7,722	14,854	5,961	2,603	0
<b>As of 31/12/2009</b>						
Trade receivables	24,507	15,451	6,632	866	1,558	0

The write-downs charged against trade receivables attributable to the measurement category “Loans and Receivables” showed the following development in financial year 2010:

	2010 k€	2009 k€
Write-downs at 01/01/	1,861	2,641
Foreign exchange differences	0	0
Utilisation	- 121	- 169
Reversal	0	- 611
Addition	942	0
<b>Write-downs at 31/12/</b>	<b>2,682</b>	<b>1,861</b>

The expenses for the complete charge-off of trade receivables and the income from the recovery of charged-off trade receivables are presented in the table below:

	2010 k€	2009 k€
Expenses for the charge-off of receivables	21	2
Income from recovery of charged-off receivables	0	0

Expenses for the charge-off of receivables are recognised at the time when the receivable is deemed to be definitively uncollectible. Definitive uncollectibility is assumed at the time when the Group attains knowledge of proportional satisfaction from a bankruptcy estate.

## (23) OTHER FINANCIAL ASSETS

### a) Noncurrent other financial assets

The subsidiary of Phoenix Solar AG, SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, extended its interest-bearing bullet loan of EUR 642 thousand (PY: EUR 505 thousand) maturing at the end of 2012. Based on the current project planning status in Greece, it is expected that most of the projects can be completed with an appropriate profit margin in 2011 and 2012. Based on the fair market interest rate of 6.5 percent, Phoenix Solar AG collected interest income of EUR 32 thousand in 2010 (PY: EUR 29 thousand).

The remaining amount consisted of security deposits in reputable banks, which have been pledged in favour of the Phoenix Group and bear interest at market terms.

### b) Current other financial assets

The current other financial assets break down as follows:

Current other financial assets	31/12/2010 k€	31/12/2009 k€
Supplier credits	2,876	177
Other receivables	1,469	0
Advance payments	866	216
Creditors with debit balances	427	36
Receivables under financial transfer operations	180	377
Derivatives	0	141
Other	123	214
<b>Total</b>	<b>6,816</b>	<b>1,161</b>

The supplier credits presented in the consolidated statement of financial position related mainly to goods that were the subject of complaints and were reimbursed in money. Current financial assets of this type are secured by way of retention-of-title clauses.

The current other receivables consisted mainly of a permanent advance to a supplier, in the amount of EUR 875 thousand (PY: EUR 875 thousand). The advance is secured by bank guarantees and is due and payable on 31 December 2011. This item also comprises advances to employees of the Phoenix Group, which are secured by salary deductions within the maximum garnishment limits.

### c) Other financial asset

The expected payment receipts of other financial assets are presented in the tables that follow:

	Carrying amount k€	Expected receipt of payment			
		Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
<b>As of 31/12/2010</b>					
Financial assets	7,541	553	4,920	1,343	725
Due in one year or less	6,816	553	4,920	1,343	0
Due in more than one year	725	0	0	0	725
<b>As of 31/12/2009</b>					
Financial assets	2,605	401	47	713	1,444
Due in one year or less	1,161	401	47	713	0
Due in more than one year	1,444	0	0	0	1,444



**(24) INFORMATION ON FINANCIAL INSTRUMENTS BY CATEGORY**

In the table below, the carrying amounts and fair values of individual financial assets and liabilities are presented for each category of financial instruments.

2010	Measurement category as per IAS 39*	Carrying amounts	Total carrying amounts within the scope of IFRS 7	Fair value
		k€	k€	k€
Other investments	AfS	160	160	160 <sup>1</sup>
Noncurrent receivables	LaR	688	688	688
Other noncurrent financial assets	LaR	725	725	725
Liabilities under long-term construction contracts	LaR	82,227	82,227	82,227
Trade receivables	LaR	31,140	31,140	31,140
Other current financial assets	LaR	6,816	6,816	6,816
Derivatives not used for hedging	HfT	0	0	0
Cash and cash equivalents	LaR	9,588	9,588	9,588
<b>Total assets</b>		<b>131,344</b>	<b>131,344</b>	<b>131,344</b>
Noncurrent financial liabilities	AmC	37	37	37
Current financial liabilities	AmC	52,642	52,642	52,642
<b>Total financial liabilities</b>		<b>52,679</b>	<b>52,679</b>	<b>52,679</b>
Liabilities under long-term construction contracts	AmC	267	267	267
Trade payables	AmC	84,538	84,538	84,538
Other financial liabilities		6,859	6,859	6,859
Derivatives not used for hedging	HfT	185	185	185
<b>Total financial liabilities</b>		<b>91,849</b>	<b>91,849</b>	<b>91,849</b>

\* AfS: Available-for-Sale; LaR: Loans and Receivables; HfT: Held-for-Trading; AmC: Amortised Cost. For a description of measurement categories, please refer to Note 2 "Non-derivative financial instruments."

<sup>1</sup> The fair value of this investment was measured at cost due to the lack of an active market and the limited activity of the company in which the investment is held.

2009	Measurement category as per IAS 39*	Carrying amounts	Total carrying amounts within the scope of IFRS 7	Fair value
		k€	k€	k€
Other investments	AfS	160	160	160 <sup>1</sup>
Noncurrent receivables	LaR	687	687	687
Other noncurrent financial assets	LaR	1,444	1,444	1,444
Liabilities under long-term construction contracts	LaR	41,072	41,072	41,072
Trade receivables	LaR	24,507	24,507	24,507
Other current financial assets	LaR	2,464	2,464	2,464
Derivatives not used for hedging	HfT	141	141	141
Cash and cash equivalents	LaR	24,461	24,461	24,461
<b>Total assets</b>		<b>94,936</b>	<b>94,936</b>	<b>94,936</b>
Noncurrent financial liabilities	AmC	47	47	47
Current financial liabilities	AmC	6	6	6
<b>Total financial liabilities</b>		<b>53</b>	<b>53</b>	<b>53</b>
Liabilities under long-term construction contracts	AmC	302	302	302
Trade payables	AmC	51,705	51,705	51,705
Other financial liabilities		3,824	3,824	3,824
Derivatives not used for hedging	HfT	500	500	500
<b>Total financial liabilities</b>		<b>56,331</b>	<b>56,331</b>	<b>56,331</b>

\* AfS: Available-for-Sale; LaR: Loans and Receivables; HfT: Held-for-Trading; AmC: Amortised Cost. For a description of measurement categories, please refer to Note 2 "Non-derivative financial instruments."

<sup>1</sup> The fair value of this investment was measured at cost due to the lack of an active market and the limited activity of the company in which the investment is held.

The fair value of loans and receivables, held-to-maturity financial investments and non-derivative liabilities is calculated as the present value of future cash inflows or outflows. These cash flows are discounted to present value by application of an appropriate discount factor for the maturity in question, updated at the reporting date, with due consideration given to the counterparty's credit rating. In those cases in which an exchange-listed price is available, that price is applied as the fair value.

Due to the mainly short-term maturity of trade receivables and payables, other receivables and liabilities and cash and cash equivalents, the carrying amounts at the reporting date are not significantly different from the fair values.

Derivatives have been measured at its fair values.

The expenses, income, losses and gains of financial instruments can be attributed to the following categories:

2010	LaR k€	AmC k€	AfS k€	HfT k€	Total k€
Interest income	231	0	0	0	231
Interest expenses	0	- 2,483	0	0	- 2,483
Changes in fair value	0	0	0	220	220
Expenses of impairment losses	- 2,682	0	0	0	- 2,682
Income from reversals of impairment losses	0	0	0	0	0
Gains on disposal	8	192	0	0	8
Losses on disposal	- 21	0	0	- 17	- 38
<b>Net result</b>	<b>- 4,947</b>	<b>- 2,291</b>	<b>0</b>	<b>203</b>	<b>- 4,744</b>

2009	LaR k€	AmC k€	AfS k€	HfT k€	Total k€
Interest income	418	0	0	0	418
Interest expenses	0	- 1,660	0	0	- 1,660
Changes in fair value	0	0	0	- 391	- 391
Expenses of impairment losses	- 3,025	0	0	0	- 3,025
Income from reversals of impairment losses	0	0	0	0	0
Gains on disposal	760	0	0	89	849
Losses on disposal	- 627	0	0	- 4	- 631
<b>Net result</b>	<b>- 4,019</b>	<b>- 1,660</b>	<b>0</b>	<b>- 306</b>	<b>- 4,440</b>

The amounts presented in the “Held-for-Trading” (HfT) column are composed almost exclusively of interest expenses and interest income from interest rate and interest rate-currency hedges, which are not part of an accounting hedge.

#### (25) OTHER NON-FINANCIAL ASSETS

The other non-financial assets in the amount of EUR 15,411 thousand (PY: EUR 6,926 thousand) consisted mainly of foreign sales tax receivables in the amount of EUR 14,780 thousand (PY: EUR 6,787 thousand).

#### (26) CASH AND CASH EQUIVALENTS

The cash and cash equivalents due in three months or less are presented in the table below:

Cash and cash equivalents	31/12/2010 k€	31/12/2009 k€
Cash on hand	5	7
Cash in banks	9,583	24,454
<b>Total</b>	<b>9,588</b>	<b>24,461</b>

Cash on hand and cash in banks are stated at face value. Cash funds are not subject to any restrictions on disposal.

Cash on hand and cash in banks in foreign currency are translated to the reporting currency at the middle exchange on the reporting date. Measurement differences between acquisition costs and current market values are recognised in the income statement as other operating income or other operating expenses.

The interest rates in financial year 2010 were between 0.1 percent and 0.9 percent (PY: 0.1 percent and 1.2 percent).

## (27) EQUITY

For information on changes in equity, please refer to the Statement of Changes in Equity.

As of 31 December 2010, the share capital amounted to EUR 7,372.7 thousand (PY: EUR 6,700.7 thousand). It was divided into 7,372,700 (PY: 6,700,700) no-par bearer shares (common shares) and was fully paid-in at the reporting date for the consolidated financial statements. The increase in share capital resulted from the capital increase conducted on 13 July 2010 (670,200 common shares) and from the exercise during the financial year of 1,800 (PY: 16,200) stock options issued in 2007.

The annual general meeting of 16 June 2010 resolved to establish an Authorised Capital 2010/I and a Conditional Capital. It also resolved to annul the Authorised Capital 2006/I and make amendments to the company's articles of incorporation. By resolution of the annual general meeting, the company's share capital was increased by EUR 2,814,000.00 on a conditional basis (Conditional Capital 2010/I).

By resolution of the annual general meeting, the Executive Board is authorised to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,351,250.00 in exchange for cash and/or in-kind capital contributions on one or more occasions in the time until 15 June 2015, for which purpose the subscription right of shareholders can be excluded (Authorised Capital 2010/I). Following the capital increase conducted on 13 July 2010, the Authorised Capital 2010/I after partial utilisation amounted to EUR 2,681,050.00.

In that connection, the Executive Board was authorised, with the consent of the Supervisory Board, to issue convertible bonds and/or bonds with warrants in bearer form, or a combination of those instruments (referred to collectively as the "bonds"), in the total nominal amount of up to EUR 200 million, with a term of no longer than five years, entitling the holders to purchase a total of up to 2,814,000 bearer shares of Phoenix Solar AG in the time until 15 June 2015, in accordance with the conversion or warrant terms and conditions (referred to hereinafter as the "terms and conditions") to be resolved by the Executive Board, with the consent of the Supervisory Board. The bonds will be issued in exchange for cash or in-kind contributions. They can be issued on one or more occasions, all at once or in different parts or tranches subject to equivalent rights and obligations. The terms and conditions of the bonds may also stipulate obligatory conversions at the end of the term or on earlier dates, including the obligation to exercise the conversion and/or warrant right. The conversion or warrant price may not be less than 80 percent of the determining share price, which is the average closing price over the ten stock exchange days preceding the date of the resolution adopted by the Executive Board to make an offer of bonds for the Phoenix Solar AG share in the Xetra trading platform (or comparable successor system) of Deutsche Börse AG, Frankfurt am Main.

The additional paid-in capital consists of issue premiums paid in connection with capital increases and the recognition of stock options. The capital increase conducted on 13 July 2010 at a placement price of EUR 32.00 per share raised gross issue proceeds of EUR 21,446.4 thousand. After deduction of the EUR 670.2 thousand appropriated to share capital and the net capital increase costs of EUR 314.7 thousand, the additional paid-in capital was increased by EUR 20,461.5 thousand. An additional amount of EUR 33.0 thousand consisting of premiums resulting from the exercise during the financial year of 1,800 stock options issued in 2007 was appropriated to additional paid-in capital. Furthermore, an amount of EUR 1,294.7 thousand resulting from granted stock options was appropriated to additional paid-in capital in financial year 2010.

The annual general meeting of 7 July 2006 resolved to introduce a stock option plan for members of the Executive Board, members of the senior management of Group companies and other selected senior managers and key employees of the company. A Conditional Capital of EUR 553 thousand was created for that purpose. By virtue of this authorisation, the Executive Board of Phoenix Solar AG established a stock option plan ("Stock Option Plan 2006", also referred to as "SOP 2006") on 10 September 2007. Under this plan, a total of 330,850 stock options were issued in four tranches to members of the Executive Board, members of the senior management of Group companies and key employees of the company as of the reporting date. Of that total, 47,950 stock options expired due to resignations and 18,000 were exercised. As of the reporting date, therefore, there remained 264,900 stock options, which can be exercised by the beneficiaries only if they are still employed by the company or a Group company and the employment relationship has not been validly terminated by either party on the exercise date.

Of the 33,250 stock options issued in 2007, 6,250 (PY: 6,250) stock options expired due to resignations and 1,800 (PY: 16,200) stock options were exercised. Each stock option under the SOP 2006 (2007) entitles the holder to purchase one common share of the company at the exercise price of EUR 19.32 per share (nominal value: EUR 1). As of the reporting date, the corresponding capital contributions in the amount of EUR 35 thousand (PY: EUR 313 thousand) were paid into the company for its free disposal and were recognised accordingly in the items of share capital, in the amount of EUR 1,800 (PY: EUR 16,200), and additional paid-in capital, in the amount of EUR 33 thousand (PY: EUR 297 thousand).

Under Agenda Item II, the annual general meeting of 16 June 2010 adopted the resolution on the utilisation of the accumulated distributable profit of Phoenix Solar AG from financial year 2009 for the distribution of a dividend of EUR 0.20 per share. A total amount of EUR 1,341 thousand (PY: EUR 2,005 thousand) was paid to shareholders as a dividend in respect of the dividend-qualifying share capital of EUR 6,700.7 thousand.

The accumulated other comprehensive income underwent the following changes in financial year 2010:

	k€
Balance at 01/01/2010	48,679
Dividend distribution	- 1,341
Currency difference	- 38
Consolidated profit for 2010	- 24,153
<b>Balance at 31/12/2010</b>	<b>71,453</b>

The non-controlling interests in consolidated equity presented in the balance sheet are related to the direct investments in Phoenix Solar Pte. Ltd., Singapore, and Phoenix Solar L.L.C., Muscat, Oman, and indirectly the investment in Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia.

### DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Capital management is handled centrally for the Phoenix Group by Phoenix Solar AG, at the main headquarters in Sulzemoos, for itself and the subsidiaries.

The principal objectives of the centralised capital management of Phoenix Solar AG are:

- Assuring the necessary capital base to finance the company's growth;
- Managing working capital in the most exact way possible;
- Monitoring the equity base; and
- Assuring the company's status as a going concern.

The capital managed by this means is balance sheet equity.

As a consequence of these goals, one essential task of capital management is to monitor compliance with minimum capital ratios and observance of the interest coverage ratio stipulated in the covenants to credit facility agreements with banks.

The obligation to demonstrate compliance with the required minimum equity ratio in the consolidated financial statements and to maintain a pre-defined interest coverage ratio was consistently fulfilled in financial year 2010.

The results were the following:

	31/12/2010 k€	31/12/2009 k€
Equity	142,445	97,264
Total assets	313,307	182,232
Equity ratio	45.5 %	53.4 %

The Phoenix Group scored as at 31 December 2010 an interest coverage ratio of 20 (PY: 10).

### (28) FINANCIAL LIABILITIES

Financial liabilities are presented in the following balance sheet items:

Financial liabilities	31/12/2010 k€	31/12/2009 k€
Noncurrent financial liabilities (due in more than one year)	37	47
Current financial liabilities (due in one year or less)	52,642	6
<b>Total</b>	<b>52,679</b>	<b>53</b>

The current financial liabilities were composed almost exclusively of unsecured drawdowns under the syndicated loan made available to the company. It is expected they will be repaid quickly using the proceeds from the sale of inventories and the payments received on outstanding receivables and project payment plans as of the reporting date.

Information on the scope of the syndicated loan agreement is provided in Note (39) on the subject of liquidity risk.

	Due in the following time ranges as of the reporting date				
	Carrying amount	Fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	More than 360 days
As of 31/12/2010	k€	k€	k€	k€	k€
Financial liabilities	52,679	52,635	1	6	37
<b>As of 31/12/2009</b>					
Financial liabilities	53	0	2	5	46

Noncurrent financial liabilities consists mainly of an annuity loan of a bank, which has been divided up in proportion to the maturity structure of the repayment instalments. The interest rate for this loan is 4.6 percent p. a.

The loan is secured by rights in rem.

## (29) PROVISIONS

The provisions break down as follows:

Noncurrent provisions	Balance at 01/01/2010	Reclassification	Utilisation	Reversal	Compounding	Addition	Balance at 31/12/2010
	k€	k€	k€	k€	k€	k€	k€
Warranty provisions	1,252	- 405	8	0	76	858	1,773
Site restoration provisions	119	0	0	0	6	17	142
Other	151	0	0	4	1	133	281
<b>Total</b>	<b>1,522</b>	<b>- 405</b>	<b>8</b>	<b>4</b>	<b>83</b>	<b>1,008</b>	<b>2,196</b>
<b>Current provisions</b>							
Warranty provisions	1,014	405	575	108	14	68	818
Litigation and arbitration costs	224	0	113	0	0	11	122
Complaints	90	0	0	90	0	0	0
Other	500	0	500	0	0	753	753
<b>Total</b>	<b>1,828</b>	<b>405</b>	<b>1,188</b>	<b>198</b>	<b>14</b>	<b>832</b>	<b>1,693</b>

The warranty provision has been established to account for statutory and contractual warranty obligations and for accommodation payments to customers. Nearly 100 percent of noncurrent warranty provisions related to the project business have a term of up to five years.

The provisions for litigation and arbitration costs are composed of two kinds of costs: anticipated costs due to court proceedings against customers for unpaid invoices and claims asserted by customers as of the reporting date, which are at least partially unfounded from the Group's perspective. These items are always evaluated on the basis of the prospects for out-of-court settlements. As of the reporting date, the Management estimates a maximum additional cost for litigation and arbitration costs of 10 percent, at most; the period considered for that purpose is up to three years.

Provisions for complaints have been established for customer complaints that had not yet been raised as of the reporting date, based on past experience values.



The other noncurrent provisions include, in particular, the provision for site restoration obligations and the provision for the obligation to archive business documents. Otherwise, the other provisions have been established to account for matters involving amounts of subordinated importance in individual cases. The terms of the provisions range from 9 to 20 years.

### (30) TRADE PAYABLES

Trade payables are measured at the settlement amount. Due to the short-term payment terms of these liabilities, this amount is equal to the fair value of the corresponding liabilities.

All trade payables are due in less than one year.

### (31) OTHER LIABILITIES

The other liabilities presented in the balance sheet are sub-divided into financial and non-financial liabilities.

The non-financial liabilities include liabilities that are not based on contractual agreements between companies or that are not settled with cash or cash equivalents or financial assets.

The other financial liabilities break down as follows:

Other financial liabilities	31/12/2010 k€	31/12/2009 k€
Personnel-related liabilities	3,857	1,687
Other	3,187	2,636
<b>Total</b>	<b>7,044</b>	<b>4,323</b>

The personnel-related liabilities consist mainly of employee bonuses and management bonuses.

In addition, the financial liabilities include interest rate swaps classified as “held-for-trading” in the amount of EUR 185 thousand (PY: EUR 500 thousand).

Under the interest rate swap, the variable or fixed interest rate of the underlying transaction is swapped over the entire term. If the interest rate of all interest rate hedges would have increased or decreased by 100 basis points as of 31 December 2010, the financial result and the fair value of hedging transactions would have been higher by EUR 173 thousand or lower by EUR 228 thousand (31 December 2009: higher by EUR 503 thousand or lower by EUR 169 thousand).

Other non-financial liabilities	31/12/2010 k€	31/12/2009 k€
Sales tax liabilities	8,432	10,701
Liabilities under wage tax and social security	506	387
Personnel-related liabilities	1,083	798
Liabilities under advance payments received	2,978	2,268
Other	70	11
<b>Total</b>	<b>13,047</b>	<b>14,165</b>

The personnel-related liabilities consisted of arrears for vacation not yet taken or overtime hours worked.

## E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (32) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The equity of the Phoenix Group is divided into subscribed capital, additional paid-in capital reserves and accumulated other comprehensive income.

Detailed information on the fully paid-up share capital of Phoenix Solar AG and on transactions recognised in additional paid-in capital, as well as detailed information on significant transactions that are not directly reflected in the respective line item of the consolidated statement of changes in equity, can be found in Note (27) Equity.

Generally speaking, the accumulated other comprehensive income represents the earned equity of the Group. It is composed of the prior-period profits and losses of the companies included in the consolidated financial statements, to the extent they were not distributed in the form of dividends, and the differences arising from the currency translation of the separate financial statements of foreign subsidiaries, in the amount of EUR – 126 thousand (PY: EUR – 88 thousand). No income taxes were incurred in respect of other comprehensive income (PY: EUR 0 thousand).

### (33) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement presents the changes in the cash and cash equivalents of the Phoenix Solar Group that occurred during the reporting period as a result of cash inflows and outflows. In accordance with IAS 7, cash flows are divided into the cash flow from operating activities, the cash flow from investing activities and the cash flow from financing activities. In case of changes in the group of consolidated companies resulting from the acquisition or sale of companies, the purchase price paid (excluding liabilities assumed), less the cash and cash equivalents acquired or sold, are recognised as cash flows from investing activities. The other accounting effects of the acquisition or sale are eliminated in the respective line items of the three different groups of cash flows.

The cash flow from operating activities is calculated by means of the indirect method. Thus, the cash flow from operating activities is calculated by deducting non-cash items and changes in current assets and liabilities, as well as interest and tax payments, from the consolidated profit or loss before taxes.

Significant changes in tied-up capital that have an effect on operating cash flow include the change in inventories (EUR 80,130 thousand) and work completed in connection with the project business (EUR 40,396 thousand). Factors that increased the operating cash flow included purchasing terms under which goods and services worth EUR 34,858 thousand were received in financial year 2010, but will not lead to a corresponding cash outflow until the first quarter of 2011.

The cash flows from investing activities and financing activities are calculated by means of the direct method, based on the presentation of exclusively cash transactions.

The cash flow from investing activities was influenced mainly by acquisitions of noncurrent assets. Detailed information on capital expenditures can be found in Notes (12) and (14).

The company financed its on-going operations in financial year 2010 by means of the capital increase conducted in July 2010, which raised net proceeds after income taxes of EUR 21,050 thousand (see Note (27)), and by means of drawdowns under the syndicated working capital credit facility (see Notes (28) and (39)). The only transaction under financing activities that gave rise to a cash outflow was the payment in 2010 of the dividend for financial year 2009, which was resolved by the annual general meeting of 16 June 2010.

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all the cash and cash equivalents presented in the balance sheet, i.e., cash on hand and cash in banks, to the extent they will be available within three months (see Note (26)). The cash and cash equivalents are not subject to restrictions on disposal.

Significant non-cash transactions include changes in the measured value of inventories, in the amount of EUR 3,928 thousand (PY: EUR 1,375 thousand), personnel costs under the stock option plan in the amount of EUR 1,264 thousand (PY: EUR 1,074 thousand), adjustments to the fair value of derivative assets and liabilities, in the amount of EUR 185 thousand, and investments in noncurrent assets, when the payment date for such investments is after the reporting date.

## F. OTHER DISCLOSURES

### (34) SEGMENT REPORT

#### **OPERATING SEGMENTS**

Disclosures regarding the operating segments according to IFRS 8 must be applied, as a rule, from the beginning of financial year 2009.

The Group Executive Board is the responsible governing body that makes decisions about the allocation of resources to the operating segments of the Phoenix Group and assesses their performance. In accordance with the principles of the Management Approach, the Management Information System (MIS) of the Group Executive Board forms the basis for identifying the relevant operating segments. The MIS is based on the recognition and measurement regulations of the IASB, both originally and with respect to the data of the operating performance parameters of each operating segment. The relevant managerial indicators for each operating segment include revenues, earnings before interest and taxes, corrected for the income or expenses of associated companies (segment profit or loss).

The Group is managed via the two operating segments Power Plants and Components & Systems. The principal activities are sub-divided as follows:

- Power Plants: Planning, distribution, construction and maintenance of photovoltaic plants
- Components & Systems: Distribution of trading stock

The operating profit or loss is segmented on the basis of cost accounting reports. The revenues of the Power Plants segment are related exclusively to project-related work, so that they also include the corresponding pro-rated profits recognised as of the reporting date.

The breakdown of the other indicators to be segmented by principal activities is conducted with regard to the Power Plants and Components & Systems segments through the application of a distribution key that is derived from revenues or total operating performance in a fundamentally uniform manner. Whenever a cost allocation based on the specific cost of goods sold is required, a key is applied on the basis of the materials and work used in the cost of goods sold.

The segment information for these operating segments is presented in the following tables:

Financial Year 2010	Power Plants k€	Components & Systems k€	Other k€	Consoli- dation k€	Group k€
<b>Segment profit or loss statement</b>					
External revenues	267,220	368,412	44	0	635,676
Revenues between the segments	0	0	0	0	0
<b>Segment revenues</b>	<b>267,220</b>	<b>368,412</b>	<b>44</b>	<b>0</b>	<b>635,676</b>
Segment profit or loss	8,241	28,096	5	0	36,342
Income from associated companies	58	0	0	0	58
EBIT					36,400
Financial result					- 2,252
Consolidated profit before taxes					34,148
Income tax expenses					10,014
Profit before non-controlling interests					24,134
Non-controlling interest in profit or loss					19
<b>Consolidated profit or loss for the period</b>					<b>24,153</b>
<b>Other information</b>					
Capital expenditures	1,386	1,494	0	0	2,880
Depreciation and amortisation	444	650	0	0	1,094
Non-cash expenses	2,537	3,506	0	0	6,043
Non-cash income	1,337	302	0	0	1,639
<b>Assets</b>					
Segment assets	107,321	192,077	1	0	299,399
Shares in associated companies	418	0	0	0	418
Non-assigned assets					13,490
<b>Consolidated assets</b>					<b>313,307</b>

Financial Year 2009	Power Plants k€	Components & Systems k€	Other k€	Consoli- dation k€	Group k€
<b>Segment profit or loss statement</b>					
External revenues	173,974	299,004	54	0	473,032
Revenues between the segments	0	0	0	0	0
<b>Segment revenues</b>	<b>173,974</b>	<b>299,004</b>	<b>54</b>	<b>0</b>	<b>473,032</b>
Segment profit or loss	6,080	6,118	5	- 45	12,158
Income from associated companies	18	0	0	0	18
EBIT					12,176
Financial result					- 1,242
Consolidated profit before taxes					10,934
Income tax expenses					2,379
Profit before non-controlling interests					8,555
Non-controlling interest in profit or loss					0
<b>Consolidated profit or loss for the period</b>					<b>8,555</b>
<b>Other information</b>					
Capital expenditures	1,073	2,043	0	0	3,116
Depreciation and amortisation	230	437	0	0	667
Non-cash expenses	547	1,910	0	0	2,457
Non-cash income	1,303	1,173	0	0	2,476
<b>Assets</b>					
Segment assets	60,289	113,977	21	0	174,287
Shares in associated companies	404	0	0	0	404
Non-assigned assets					7,541
<b>Consolidated assets</b>					<b>182,232</b>

The revenues of the Power Plants segment derive exclusively from project-related work, so that project revenues as of the reporting date included both finally invoiced projects and on-going projects, the revenues of which were recognised on a period accrual basis by application of the percentage-of-completion method according to IAS 11. These revenues amounted to EUR 116,138 thousand as of the reporting date (PY: EUR 61,845 thousand). By reason of the business model and the goods and services offered on that basis, intersegment revenues are excluded, as a general rule. In view of the current customer portfolio, a concentration of revenues with one or few customers is likewise somewhat limited; the same is true on the procurement side.

Segment assets are defined as the sum of noncurrent and current assets, less shares in associated companies, as well as income tax assets and interest-bearing receivables. Segment liabilities are currently not included in the MIS and are not used by the Executive Board for managing the operating segments.

Non-cash income includes income from the reversal of provisions, liabilities and write-downs and changes in the fair value of options; non-cash expenses include the recognition of write-downs and the charge-off of receivables.

With regard to the transfer prices applied, intragroup trading is conducted at terms that meet the criteria of an arm's-length transaction. Overhead costs attributable to Group headquarters are not allocated to the operating segments, as a general rule. Although the Group Executive Board takes the utmost care to ensure that individual business relationships do not effectively create an overly important customer in the Group's portfolio, the expansion and extension of the master agreement with KG Allgemeine Leasing GmbH & Co. (KGAL) at the beginning of the financial year gave KGAL the status of an important customer in the Power Plants segment.

The revenues generated with external customers are assigned to the regions on the basis of delivery addresses or project locations.

Noncurrent assets are assigned to the regions on the basis of the company's registered head office.

The Group's revenues were divided among the following regions:

	2010 k€	2009 k€
Germany	471,199	445,388
EU excluding Germany	162,230	22,790
Other	2,247	4,854
<b>Total</b>	<b>635,676</b>	<b>473,032</b>

Furthermore, noncurrent assets were divided among the regions as follows:

	2010 k€	2009 k€
Germany	7,802	5,197
EU excluding Germany	496	463
Other	122	53
<b>Total</b>	<b>8,420</b>	<b>5,713</b>



**(35) DISCLOSURES CONCERNING DEALINGS WITH RELATED PARTIES**

In accordance with IAS 24, related parties of the Phoenix Group are defined as persons or companies that control or exert significant influence on the Phoenix Group, or whom the Phoenix Group controls or over whom it exerts significant influence.

In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of full consolidation, for which no disclosures need to be made, the Group maintained the following business relationships with related parties:

An interest-bearing bullet loan of EUR 642 thousand (PY: EUR 505 thousand) maturing at the end of 2012 was extended to the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, in which the Group had purchased an equity investment in financial year 2007. Based on the fair market interest rate of 6.5 percent, Phoenix Solar AG collected interest income of EUR 32 thousand in 2010 (PY: EUR 29 thousand).

Disclosures concerning shareholdings of directors and officers:

<b>Executive Board</b>	<b>31/12/2010 No. of shares</b>	<b>31/12/2009 No. of shares</b>
Dr. Andreas Hänel	227,200	227,200
Manfred Bächler (resigned 31/12/2010)	132,530	172,530
Dr. Murray Cameron	69,750	69,750
Sabine Kauper	190	190
Ulrich Reidenbach	216	216
<b>Total holdings of Executive Board members</b>	<b>429,886</b>	<b>469,886</b>

<b>Supervisory Board</b>	<b>31/12/2010 No. of shares</b>	<b>31/12/2009 No. of shares</b>
J. Michael Fischl	-	-
Prof. Dr. Klaus Höfle	1,575	1,575
Dr. Patrick Schweisthal	-	-
Prof. Dr. Thomas Zinser	-	-
Oliver Gosemann	300	-
Dr. Torsten Hass	400	-
Ulrich Fröhner (resigned 16/06/2010)	n/a	18,600
Ulrich Th. Hirsch (resigned 16/06/2010)	n/a	-
<b>Total holdings of Supervisory Board members</b>	<b>2,275</b>	<b>20,175</b>

In connection with the Stock Option Plan 2006, the following stock options were granted to the Executive Board:

In financial year 2007, 4,500 stock options were granted to every member of the Executive Board; the fair value of each such stock option at the reporting date was EUR 10.177. In financial year 2008 and 2009, another 9,000 stock options were granted to every Executive Board member in active service at the grant date; the fair value of each such stock option at the grant date was EUR 20.174 or EUR 17.972. In financial year 2010, additional stock options were again granted to every Executive Board member in active service at the grant date; the fair value of each such stock option at the grant date was EUR 13.912.

In addition, the compensation granted to members of the Executive Board and Supervisory Board represents transactions with related parties. Detailed information on this subject is provided in Notes (42) and (43), respectively.

#### (36) GUARANTEES AND OTHER COMMITMENTS

Contingent liabilities result, if at all, from customary contractual warranty obligations that can arise in connection with contracts in the Power Plants segment and from orders in the Components & Systems segment.

#### (37) CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities.

#### (38) OTHER FINANCIAL COMMITMENTS

The Group had total financial commitments of EUR 7,122 thousand (PY: EUR 5,652 thousand) under various rental and lease agreements. Of this total, an amount of EUR 1,592 thousand (PY: EUR 1,085 thousand) was due in less than one year, EUR 2,872 thousand (PY: EUR 2,336 thousand) between one and five years and EUR 2,658 thousand (PY: EUR 2,231 thousand) in more than five years. Some real estate leases were concluded with renewal options of five years; the exercise of such options must be declared at the end of 2013 at the latest.

As of the reporting date, the Group had firm order commitments under several purchasing agreements in the total amount of EUR 48,299 thousand (PY: EUR 109,221 thousand). The firm orders for noncurrent assets amounted to EUR 105 thousand (PY: EUR 96 thousand).

Under master agreements with manufacturers of photovoltaic modules, the Group had acceptance obligations for material purchases (solar modules and inverters) in the amount of EUR 278,207 thousand (PY: 502,146 EUR thousand), which must be fulfilled by 2012. Other master agreements serve the purpose of securing deliveries of aluminum (EUR 1,263 thousand) and individually tailored manufacturing capacities for stamped and bended parts (EUR 2,137 thousand).

#### (39) RISK MANAGEMENT SYSTEM

Phoenix Solar Group is exposed to both cash flow risks and exchange rate risks with respect to its assets, liabilities and planned transactions.

The objective of financial risk management is to limit this risk by means of on-going operational and financial activities. To that end, selected derivative hedging instruments are used, depending on the assessment of the risk in question. As a general rule, however, only those risks that could have effects on the Group's cash flow are hedged. Derivative financial instruments are employed exclusively for hedging purposes; thus, they are not used for trading or other speculative purposes.

The basic principles of financial policy are adopted annually by the Executive Board and monitored by the Supervisory Board. The implementation of the financial policy and the corresponding risk management are the responsibility of the Treasury Department. Certain transactions require the advance approval of the Executive Board, which is also informed about the scope and amount of the current risk level on a regular basis.

### CURRENCY RISK AND INTEREST RATE RISK

Due to the fact that the business of the Phoenix Group is geared to international markets and their growing importance, the company is exposed to currency risks. Therefore, the Treasury Department considers the effective management of exchange rate risk to be one of its principal tasks and fulfils that task by means of an actively managed exchange rate hedging strategy.

Foreign currency risks are hedged to the extent that they influence the Group's cash flows. On the other hand, foreign currency risks that do not influence the Group's cash flows (i.e., risks resulting from the translation of assets and liabilities of foreign corporate entities to the Group's reporting currency) are not hedged, as a general rule.

In the area of operating activities, foreign currency risks arise from planned payments in currencies other than the functional currency in connection with the procurement of modules.

To limit or eliminate such risks, derivatives are employed as hedging instruments. As a general rule, the Group employs forward exchange deals, swaps and currency options to hedge payments in advance that will be made or received in the following financial year. As of the reporting date 31 December 2010, the Group disposed of forward exchange deals with a volume of EUR 0 thousand (PY: 26,229 thousand).

Accordingly, Phoenix Solar AG is exposed to market price risks in relation to certain currency derivatives, which are used to hedge underlying transactions and budgeted items. Exchange rate changes in the currencies underlying such financial instruments are recognised in other operating income or expenses (measurement result from the adjustment of financial assets to fair value). If the euro had risen or fallen by 10 percent against all currencies as of 31 December 2010, the other operating income or expenses and the fair value of hedging transactions would have been higher by EUR 0 thousand or lower by EUR 0 thousand, respectively (31 December 2009: higher by EUR 2,966 thousand or lower by EUR 2,342 thousand, respectively). The hypothetical profit effect results from the currency sensitivities of the euro to the Japanese yen and of the euro to the US dollar.

Monetary financial instruments (cash and cash equivalents, receivables, non-interest-bearing liabilities) are denominated directly in the functional currency in most cases. Therefore, exchange rate changes have no effect on the Group's profit or equity. Interest income and interest expenses from financial instruments are likewise recognised directly in the functional currency. Therefore, any changes in that respect also have no effect on the managed values.

Furthermore, the company has instituted an interest rate management program, which became more important in the past financial year as a result of the variable syndicated loan financing. Although the business model and the resulting liabilities and equity items are currently subject only to minor interest rate risks, the Group realised the necessity of instituting active interest rate hedging in this area. As vehicles for managing the interest burden, the Group employed both interest rate swaps and interest rate caps to adequately counter any potential increase in interest rates. Interest rate changes affecting the interest differences underlying such financial instruments will have an effect on the Group's financial result. If the level of interest rates would have increased or decreased by 100 basis points compared to all interest rate hedging transactions as of 31 December 2010, the financial result and the fair value of hedging instruments would have been higher by EUR 173 thousand or lower by EUR 228 thousand, respectively (31 December 2009: higher by 503 thousand or lower by EUR 169 thousand, respectively).

### DEFAULT RISK

The Phoenix Group attaches great importance to default risk. As part of the processes employed for that purpose, the company seeks to evaluate the creditworthiness of contract partners with the aim of limiting or preventing losses on receivables. References are obtained from international credit agencies in order to ensure the objective evaluation of contract partners. Furthermore, the creditworthiness of contract partners is verified at regular intervals; when their creditworthiness worsens, the contract terms are adjusted accordingly. In such cases, the company reduces the credit limits granted to customers until the necessary down payment financing has been secured; alternatively, the company demands additional collateral such as guarantees, trust accounts, etc. In addition, the company actively manages all receivables by continuously monitoring the market behaviour of its contract partners; a warning is triggered when the payment behaviour of any contract partner deteriorates.

The Group is exposed to default risk primarily in connection with its trade receivables. The amounts presented in the balance sheet are net of write-downs for tentatively uncollectible receivables; such write-downs have been estimated by the Group's Management on the basis of past experience values and the current economic environment.

Default risk is limited with respect to cash equivalents because such instruments are held with banks to which international rating agencies have issued high credit ratings.

There is no significant concentration of default risks within the Group because the risks are distributed among a large number of counterparties and customers.

The maximum default risk is reflected in the carrying amounts of the financial assets presented in the balance sheet (including derivative financial instruments with positive market values). As of the reporting date, there were no significant agreements that would reduce the maximum default risk (e.g., set-off agreements).

### LIQUIDITY RISK

Based on the three-year medium-term plan approved by the management, the company prepares a cash flow forecast for the purpose of avoiding liquidity risks within the Phoenix Group, liquidity risk being defined as an inability to meet payment obligations in the full amount when they are due. Based on the cash flow forecast, the Corporate Treasury Department prepares a detailed, one-year funding needs plan, on that basis of which weekly liquidity projections are prepared. Consequently, financial risks can be detected at an early stage and measures can be taken to influence the financing and investment needs (dispositive liquidity risk management). The company entered into cash pooling agreements with some of its European subsidiaries in financial year 2010 to speed up the availability of short-term liquidity within the Phoenix Group.

In order to finance the growth of the Phoenix Group, Phoenix Solar AG entered into a syndicated loan agreement in the amount of EUR 150,000 thousand with a term of three years on 20 November 2008. The credit facility serves to finance the working capital of the Phoenix Solar Group and the Group's guarantee and letter of credit needs. The lending syndicate is composed of the Group's previous regular banks and one new bank. The syndicate leader and mandated lead arranger is BayernLB, the senior lead arrangers are Deutsche Bank AG, Dresdner Bank (now Commerzbank) and HypoVereinsbank AG – Member of UniCredit Group, and the co-arrangers are LfA Förderbank Bayern and Sparkasse Fürstentumbrück. In addition, the Group has entered into bilateral guarantee credit agreements of indefinite duration with a total volume of EUR 42,500 thousand. In total, the credit facility amounted to EUR 192,500 thousand as of the reporting date.

For purposes of structural liquidity risk management, moreover, the Corporate Treasury Department monitors and continuously fulfils the covenant under the syndicated loan agreement, using the funds provided for that purpose.

#### (40) SHARE-BASED PAYMENT FORMS

The annual general meeting of 7 July 2006 adopted a Stock Option Plan for members of the Executive Board, members of the management of the Group companies and selected executives and other key personnel of the company. To that end, a Conditional Capital of EUR 552 thousand was created.

By virtue of this authorisation, the Executive Board of Phoenix Solar AG established a Stock Option Plan on 10 September 2007 ("Stock Option Plan 2006"; SOP 2006 as an abbreviation for Stock Option Plan 2006), under which a total of 330,850 stock options of Phoenix Solar AG were granted in four tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 47,350 of those stock options had expired due to resignations and 18,000 had been exercised. As of the reporting date, therefore, there remained 265,500 stock options, which can be exercised by the beneficiaries only if the beneficiary will be employed by the company or a Group company and the employment relationship will not have been cancelled by either party with valid effect at the time of exercising the stock options.

The fair value of stock options has been calculated by means of a simulation (Monte Carlo simulation), based on the following parameters:

	SOP 2006 (2010)	SOP 2006 (2009)	SOP 2006 (2008)	SOP 2006 (2007)
Issue date	07/09/2010	08/09/2009	10/09/2008	10/09/2007
Effective date of measurement	07/09/2010	08/09/2009	10/09/2008	10/09/2007
Stock exchange price of the company's share at the effective date of measurement	€ 28.70	€ 36.40	€ 43.46	€ 18.90
Vesting period	2 years	2 years	2 years	2 years
Stock option life (including vesting period)	7 years	7 years	7 years	7 years
Exercise price	€ 28.75	€ 35.11	€ 46.39	€ 19.32
Risk-free interest rate	0.87 %	2.95 %	4.04 %	4.09 %
Volatility	63.82 %	64.83 %	61.35 %	66.33 %
Annual dividend per share	€ 0.20	€ 0.25	€ 0.20	€ 0.10
Due date of dividends (assumption)	approx. 15 June of every year	approx. 15 June of every year	approx. 15 June of every year	approx. 15 June of every year
No. of simulations conducted	10,000,000	10,000,000	10,000,000	10,000,000

- **Exercise strategies:** The strategy of earliest possible exercise was assumed for Tranches I to III. Based on the experience made with the initial exercise, a tripartite strategy was assumed for Tranche IV, thus 1. earliest possible exercise, 2. earliest possible exercise after 2.5 years at the earliest, 3. earliest possible exercise after 3 years at the earliest. The weighting applied for determining the percentage of stock options to which each strategy should be applied for measurement purposes is based on the experience made; thus, 67 percent according to Strategy 1, 11 percent according to Strategy 2 and 22 percent according to Strategy 3. In addition, a usual employee turnover rate of 5 percent was applied.
- **Lock-up period:** During the exercise period, stock options may not be exercised during a period of 14 calendar days prior to the date of publication of quarterly reports and during the period from the close of the fiscal year to the end of the date of publication of the financial results of the preceding financial year.

- **Exercise hurdles:** The stock options can be exercised by the beneficiary only when the closing price of the share of Phoenix Solar AG in the Xetra trading system of the Frankfurt am Main Stock Exchange (or a comparable successor system) exceeds the exercise price at the time of exercising the stock option by 40 percent for ten consecutive trading days in the first year of the exercise period. This percentage increases by 20 percentage points per year in each of the following years.

The volatility was calculated as the historical volatility on the basis of the share price performance in the periods from 19 November 2004 to 13 July 2007 (Tranche I), from 1 July 2005 to 12 September 2008 (Tranche II), from 1 July 2006 to 5 October 2009 (Tranche III) and from 1 July 2007 to 4 October 2010 (Tranche IV). The expected volatility is based on the average value of historical volatilities.

The risk-free interest rate was calculated with the aid of the Svensson method. Based on this calculation method, the value of each stock option was determined to be EUR 10.177 (Tranche I), EUR 20.174 (Tranche II), EUR 17.972 (Tranche III) and the weighted value of each stock option was determined to be EUR 13.912 (Tranche IV) at the grant date.

The stock options showed the following development in financial year 2010:

	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Stock options at 01/01/2009	0	0	72,000	27,000	99,000
Allotted in 2009	0	86,100	0	0	0
Exercised in 2009	0	0	0	- 16,200	- 16,200
Expired during the term in 2009	0	0	0	0	0
<b>Stock options at 31/12/2009 – 01/01/2010</b>	<b>0</b>	<b>86,100</b>	<b>72,000</b>	<b>10,800</b>	<b>168,500</b>
Allotted in 2010	135,000	0	0	0	135,000
Exercised in 2010	0	0	0	- 1,800	- 1,800
Expired during the term in 2010	- 9,000	- 14,100	- 13,500	0	- 36,600
<b>Stock options at 31/12/2010</b>	<b>126,000</b>	<b>72,000</b>	<b>58,500</b>	<b>9,000</b>	<b>265,500</b>

For Tranche I, the average weighted share price upon first-time exercise of the stock options was EUR 38.61 (PY: EUR 39.45).

The expense of share-based payment forms in financial year 2010 was EUR 1,264 thousand (PY: EUR 1,075 thousand), due to the fact that the expense is distributed over the period from the issue date to the expiration of the vesting period.

All stock options were settled by way of issuing equity instruments.

#### (41) EVENTS AFTER THE REPORTING DATE

##### **RESIGNATION OF THE CHIEF TECHNOLOGY OFFICER**

Chief Technology Officer Mr. Manfred Bächler resigned from the Executive Board with effect as of 31 December 2010, for personal reasons. The tasks performed by Mr. Bächler will be delegated to other members of the Executive Board; in particular, Executive Board Chairman Dr. Andreas Hänel will perform the duties of Chief Technology Officer.

**EXECUTIVE BOARD PROPOSES A DIVIDEND PAYMENT**

The Executive Board of Phoenix Solar AG resolved on 15 March 2011 to propose a dividend payment for financial year 2010 of EUR 0.35 per share (PY: EUR 0.20) to the annual general meeting. This resolution is subject to the reservation that the annual financial statements for financial year 2010 will be officially adopted and the Supervisory Board will grant its consent.

All 7,372,700 shares of Phoenix Solar AG that are currently listed for trading qualify for dividends.

The final dividend proposal to the annual general meeting, which will be held on 14 July 2011, will be announced along with the notice of meeting for the annual general meeting.

**TŌHOKU EARTHQUAKE AND NUCLEAR ACCIDENTS AT FUKUSHIMA-DAIICHI**

It is difficult to predict the extent to which the consequences of the disaster that struck Japan on 11 March 2011 will influence the further development of the photovoltaic industry. However, an increasingly critical stance towards nuclear energy could have the effect of accelerating the growth and expansion of renewable energies, including photovoltaic energy.



## G. SUPPLEMENTARY DISCLOSURE OBLIGATIONS PURSUANT TO THE GERMAN COMMERCIAL CODE (HGB)

### (42) EXECUTIVE BOARD OF THE PARENT COMPANY

- Dr. Andreas Hänel, Diplom-Ingenieur, Sulzemoos (Chief Executive Officer)
- Manfred Bächler, Diplom-Ingenieur, Senden (Chief Technology Officer)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Chief Operating Officer)
- Sabine Kauper, Diplom-Betriebswirtin (FH), Merching (Chief Financial Officer)
- Ulrich Reidenbach, Diplom-Ingenieur, Munich (Chief Sales Officer)

All members of the Executive Board are authorised to represent the company individually.

Membership on supervisory boards within the Group and external to the Group:

- Dr. Murray Cameron is the Chairman of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore.
- Ulrich Reidenbach is a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore.
- Sabine Kauper is a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, and since 15 June 2009 also a member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Unterneukirchen.

The compensation granted to the Executive Board in financial year 2010 amounted to EUR 2,391 thousand (PY: EUR 1,822 thousand).

This compensation was divided up as follows:

	Components not dependent on success		Components dependent on success		Components with a long-term incentive effect		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Dr. Andreas Hänel	176	175	171	45	139	162	486	382
Manfred Bächler	348	169	120	41	125	162	593	372
Dr. Murray Cameron	140	140	127	29	125	162	392	331
Sabine Kauper	163	148	154	40	139	162	456	350
Ulrich Reidenbach	171	165	154	60	139	162	464	387
<b>Total</b>	<b>998</b>	<b>797</b>	<b>726</b>	<b>215</b>	<b>667</b>	<b>810</b>	<b>2,391</b>	<b>1,822</b>

Compensation components that are not dependent on success include a monthly base salary, the provision of a company car conformant with the Company Car Guideline, which can also be used for private purposes, and the assumption of a premium for an accident insurance policy that primarily covers accidents on the job, but also covers liability in the private sphere. In addition, an additional expense of EUR 188 thousand was incurred in connection with a no-competition clause agreed between Mr. Bächler and Phoenix Solar AG in relation to his resignation from the Executive Board. The no-competition clause has a term of one year and the corresponding amount will be paid in twelve monthly instalments.

In connection with the implementation of the German Executive Board Compensation Act, the company revised the rules applicable to success-dependent compensation components in 2010. As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals is applied. To ensure that the compensation system is appropriately geared to long-term success, long-term incentives were installed in the form of an EBIT hurdle for the quantitative goals and a bonus index system based on a multiplier concept. The EBIT hurdle protects the interests of investors by stipulating that a bonus will be paid only if the adjusted EBIT is appropriate relative to the total compensation costs of the Executive Board and Supervisory Board. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the indexed operating performance of exchange-listed companies and their principal business segments. As a result, earned bonuses are paid on two different due dates. The first instalment is paid in the first half of the subsequent year and the second instalment is usually paid in the first half of the year following the subsequent year, provided that the EBIT hurdle is met in the subsequent financial year; if the EBIT hurdle is not met, the second instalment can be carried forward by one year, but will be forfeited in the second subsequent year if the EBIT hurdle is not met in the following year.

The components with a long-term incentive effect consisted of 48,000 options to purchase shares of Phoenix Solar AG. A total of 9,600 stock options were granted to each member of the Executive Board in active service at the issue date; the fair value of each stock option at the grant date was EUR 13.912. By reason of the resignation of Mr. Bächler from the Executive Board as of 31 December 2010, his stock options expired at the close of the reporting date.

Furthermore, change-of-control clauses have been in effect for two Executive Board members since October 2008. One of these Executive Board members left the company effective 31 December 2010. In the event of a change of ownership, a concentration of at least 30 percent of voting rights in Phoenix Solar AG with a single shareholder or third party or the conclusion of an affiliation agreement with Phoenix Solar AG as the dependent company, the remaining Executive Board member will be entitled, within a period of three months after gaining knowledge of the occurrence of one of the aforementioned events, to cancel his employment contract and resign from the Executive Board with advance notice of six months prior to the last day of any month. In that case, the Executive Board member will be entitled to a severance award equal to his fixed annual compensation and 80 percent of the maximum possible variable compensation for no more than three years.

#### (43) SUPERVISORY BOARD OF THE PARENT COMPANY

- J. Michael Fischl, Diplom-Kaufmann (Chairman), Abensberg, Head of Central Internal Audit of Sparkasse Ingolstadt
- Prof. Dr. Klaus Höfle, Giengen, Diplom Wirtschaftspädagoge, Managing Director of Münchener Management Forum (MMF) and associate lecturer at three universities
- Dr. Patrick Schweisthal (Vice Chairman), Rohrbach, lawyer
- Prof. Dr. Thomas Zinser, Hohenschäftlarn, tax consultant with the firm Ebner Stolz Mönning Bachem and Head of the Tax Faculty at Landshut University
- Oliver Gosemann, Forst, member of the Executive Board of Knürr AG (in office as of 16 June 2010)
- Dr. Torsten Hass, Munich, self-employed economics advisor (in office as of 16 June 2010)
- Ulrich Fröhner, Stuttgart (Vice Chairman), energy consultant (resigned on 16 June 2010)
- Ulrich Th. Hirsch, Schondorf am Ammersee, lawyer and tax consultant (resigned on 16 June 2010)

The total compensation of the Supervisory Board members in financial year 2010 amounted to EUR 305 thousand (PY: EUR 214 thousand).

This amount was divided up as follows:

	Components not dependent on success		Components dependent on success		Components with a long-term incentive effect		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
J. Michael Fischl	28	24	63	40	0	0	91	64
Prof. Dr. Klaus Höfle	20	14	21	14	0	0	41	28
Dr. Patrick Schweisthal	17	14	27	14	0	0	44	28
Prof. Dr. Thomas Zinser	18	15	21	15	0	0	39	29
Oliver Gosemann	12	0	12	0	0	0	24	0
Dr. Torsten Hass	10	0	12	0	0	0	22	0
Ulrich Fröhner	9	17	11	20	0	0	20	37
Ulrich Th. Hirsch	8	14	16	14	0	0	24	28
<b>Total</b>	<b>122</b>	<b>98</b>	<b>183</b>	<b>116</b>	<b>0</b>	<b>0</b>	<b>305</b>	<b>214</b>

#### (44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The professional fee paid to the auditing firm in financial year 2010 and recognised as an expense in 2010 was divided up as follows:

	2010 k€	2009 k€
a) Services related to the audit of financial statements	209	212
b) Other certification services	95	137
c) Tax advisory services	0	0
d) Other services	0	0
<b>Total</b>	<b>304</b>	<b>349</b>

The other certification services related mainly to the critical review of the semi-annual financial statements and other review activities related to the interim financial statements.

#### (45) DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

The Executive Board and Supervisory Board have issued a Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporations Act (AktG) and made it permanently available to shareholders at the company's website (<http://www.phoenixsolar.com/InvestorRelations/Corporate-Governance/>).

The last issuance and publication of the Declaration occurred on 18 March 2011.

## H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 30 March 2011

Phoenix Solar Aktiengesellschaft



**Dr. Andreas Hänel**  
(Chief Executive Officer)



**Sabine Kauper**  
(Chief Financial Officer)



**Ulrich Reidenbach**  
(Chief Sales Officer)



**Dr. Murray Cameron**  
(Chief Operating 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, 30 March 2011  
Phoenix Solar Aktiengesellschaft  
The Executive Board



**Dr. Andreas Hänel**  
(Chief Executive Officer)



**Sabine Kauper**  
(Chief Financial Officer)



**Ulrich Reidenbach**  
(Chief Sales Officer)



**Dr. Murray Cameron**  
(Chief Operating Officer)

# AUDITOR'S REPORT

*This report was originally prepared in the German language.  
In case of ambiguities the German version shall prevail.*

We have audited the consolidated financial statements prepared by Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 30th of March 2011

AWT Horwath GmbH  
Wirtschaftsprüfungsgesellschaft

**G. Wörl**  
Wirtschaftsprüfer

**ppa. C. Salzberger**  
Wirtschaftsprüfer

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# ADDITIONAL INFORMATION

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# SUPERVISORY BOARD OF PHOENIX SOLAR AG

**J. MICHAEL FISCHL**

(Chairman of the Supervisory Board)  
Head of Central Internal Audit of Sparkasse  
Ingolstadt

Member since 2001

**DR. PATRICK SCHWEISTHAL**

(Vice Chairman of the Supervisory Board)  
Lawyer

Member since 2001

**PROF. DR. KLAUS HÖFLE**

(Member of the Supervisory Board)  
Managing Director of Münchener Management  
Forum (MMF) and associate lecturer at three  
universities

Member since 1999

**PROF. DR. THOMAS ZINSER**

(Member of the Supervisory Board)  
Tax consultant with Ebner Stolz Mönning  
Bachem and professor at Landshut University

Member since 2005

**DR. TORSTEN HASS**

(Member of the Supervisory Board)  
Self-employed economics advisor

In office as of 16 June 2010

**OLIVER GOSEMANN**

(Member of the Supervisory Board)  
Member of the Executive Board of Knürr AG

In office as of 16 June 2010

**ULRICH FRÖHNER**

(Vice Chairman of the Supervisory Board)  
Energy consultant

Resigned on 16 June 2010

**ULRICH TH. HIRSCH**

(Member of the Supervisory Board)  
Lawyer and tax consultant

Resigned on 16 June 2010

# PHOTOVOLTAIC GLOSSARY

## ●● Accumulator

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

## ●● Alternating current

Alternating current is electrical current in which the direction and the voltage changes in accordance with certain laws of physics. Alternating current is found in most electrical grids (230 volts, 50 hertz).

## ●● Amorphous modules

Modules made of amorphous silicon (a-Si) are a type of thin-film modules. Their cells are made up of glass or metal panes 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 the crystalline structure but are spread amorphously, i.e. at random. a-Si modules can be recognised by their brown colour.

## ●● Amortisation

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, its 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

In a photovoltaic system the balance of system (BoS) costs are made up of the costs of all components except those of the modules. BoS costs comprise planning costs, construction preparation costs, the mounting system, DC cabling, inverters, buildings, grid connection and installation.

## ●● CdTe modules

CdTe modules are thin-film modules which use the semiconductor material cadmium telluride to generate electricity. The cadmium content is low. Heavy metal cannot be dissolved through a non-technical procedure so there is no danger for the user or the environment.

## ●● CIS or CIGS modules

CIS or CIGS modules are a type of thin-film module whose solar cells are made up of several layers of copper indium (gallium) diselenide which are doped with different impurities. Efficiency is currently around 12 percent.

## ●● CO<sub>2</sub> savings

Photovoltaic plants make a contribution to climate protection: An example is the 15.8 megawatt solar power plant in Moos near Würzburg (Germany) which saves around 9.700 tonnes of carbon dioxide (CO<sub>2</sub>) a year.

## ●● Crystalline modules

Crystalline modules are made of solar cells with crystalline silicon which is around 0.2 to 0.4 millimetres thick. A differentiation is made between modules with monocrystalline and polycrystalline (also known as multicrystalline) cells. The basic material is ultra-pure polysilicon. Efficiency is between 14 and 18 percent.

## ●● Degradation

Solar cells age as, over the course of their lifetime, their efficiency diminishes. This natural process of ageing induced by light irradiation is called degradation. In calculating yield assumptions this effect is generally already included.

## ●● Degression

The German Renewable Energies Act (Erneuerbare-Energien-Gesetz (EEG)) provides for an annual lowering of the feed-in tariff. The compensation rates for new installed systems, for instance, fell by 13 percent on 1 January 2011 and will fall again on 1 July 2011 between 3 and 15 percent. This rate depends on the growth of the whole market in Germany. A sliding scale regulates the reduction: If the newly installed output in a specific year exceeds or falls below a defined growth corridor, degression is either raised or lowered accordingly by one percentage point in the following year. Degression is intended to promote competition in the solar industry and to lead to lowering the cost of generating solar electricity.

## ●● Direct current

Direct current is an electric current which maintains the same direction and a constant electrical voltage. Solar modules generate direct current.

## ●● Efficiency

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

**●● Feed-in tariffs**

Feed-in tariffs constitute the fixed price, as defined under the German Renewable Energies Act (EEG), for feeding solar electricity into the grid and which must be paid by the grid operator to the producer of solar electricity. The amount of the remuneration rate per kilowatt hour depends on the type and size of the system and the year when it was taken into operation, and will remain steady over a period of 20 years.

**●● Flagship project**

A flagship project is a completed project which, along with its original purpose, is considered to be exemplary and set a benchmark for the whole sector. The reasons may be the successful deployment of new technologies, new areas of application or new yardsticks set in respect of yield and return.

**●● German Renewable Energies Act (EEG)**

The German Renewable Energies Act (EEG) came into force on 1 April 2000. Its objective is to promote the generation of energy from sources of renewable energies. Among other things, it regulates the feeding in and remuneration of renewable energies into the grid. The last amendment to the Act has been in force since 1 January 2009 and, in particular, provides for a swifter degression of the feed-in tariffs for photovoltaic systems. Another amendment to the Act is expected at the beginning of 2012. In the meantime, the EEG is regarded as a model and has already been used as a blueprint by a number of European countries (France, Italy and Greece, for example) for similar legislation.

**●● Grid-connected systems**

Grid-connected systems are solar power plants which have been connected up to the power supply system and continuously feed in solar electricity.

**●● Grid parity**

The grid parity of solar electricity means that the price of generating one kilowatt hour of solar electricity is no higher than the end consumer price for electricity from the mains socket. Grid parity is therefore tied to the location of consumption, as solar electricity is often generated where it is consumed. The definition of grid parity is not therefore a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

**●● Inverters**

Inverters convert the direct current generated by the solar cells into alternating current which is compatible with the grid. They are an integral component of solar power plants.

**●● Kilowatt (kW)**

The kilowatt (kW) is the general unit of measurement for output. The electrical output of a solar power plant is also given in kW.

**●● Kilowatt hour (kWh)**

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

**●● Megawatt (MW)**

A megawatt is a unit of measurement for output, and is equivalent to one million watts ( $10^6$  W). For example, the new solar power plant in Senftenberg in Brandenburg (Germany), which was built in summer 2010, has a peak output of 18.3 megawatt.

**●● Micromorphous modules**

Micromorphous modules (also known as tandem modules) combine both amorphous and microcrystalline technologies. The light spectrum absorbed is raised to the near-infrared region through an additional microcrystalline layer of silicon applied to an amorphous silicon layer. Micromorphous modules are therefore more efficient than amorphous modules.

**●● Monocrystalline cells**

The input material for monocrystalline cells is ultra-pure silicon which is extracted from silicon smelt 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 by their characteristic graphite colour.

#### ●● Nominal output

Nominal output (also known as peak output) is an indication of the output of a solar module or a solar power plant, for instance.

#### ●● Operation

Along with configuration and system integration, the commercial and technical operation of solar power plants are key factors influencing the yield and therefore the return. Core tasks are to secure steady-state optimal operation, the monitoring and reporting of yield data, as well as compliance with the statutory provisions and periodic inspections.

#### ●● Peak power output (peak output)

The maximum power output possible from a solar module or power 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 TectoBridge

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

#### ●● Phoenix TectoSun

Phoenix TectoSun is a roof installation system developed by Phoenix Solar which enables photovoltaic systems to be swiftly and simply installed.

#### ●● Photovoltaics

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

#### ●● Polycrystalline cells

The basic material for polycrystalline (also known as multi-crystalline) cells is ultra-pure silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into wafers which are 0.2 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.

#### ●● Private consumption

Electricity produced by a solar power system can also be used for one's own consumption, alongside feeding into the public grid. Under the German Renewable Energies Act (EEG), each kilowatt hour produced and used for private consumption will be remunerated in an amount of 16.74 cent as from 1 January 2011.

#### ●● Renewable energies

Renewable energies (also known as regenerative energies) are defined as energies from a source which either renews itself in the short term or where use does not contribute to exhausting the respective source. This includes solar irradiation and hydropower, geothermics and the potential in the energy recoverable from tidal power or biomass. The share of renewable energy sources in Germany's energy consumption is now higher than 17 percent. The use of solar power through photovoltaics has recorded the highest growth rates in renewable energies for a number of years.

#### ●● Solar cells

A solar module is made up of several solar cells which are connected to one another. Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect) which generates direct current. In the production of a solar cell, wafers from the semiconducting material silicon are doped (impurity doping). When two semiconductor 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. A differentiation is made between the different types of cells and modules.

#### ●● Solar modules

A solar module is made up of a number of solar cells which are electrically connected in a series and which, after application of current connectors, are processed to form a module. The generally square solar cells are applied to a substrate, covered by a glass plate and laminated to protect them against weather exposure. A frame is often attached for the purpose of simplifying assembly. Solar modules customary in the markets are generally made from mono- or polycrystalline solar cells or thin-film modules.

**●● Solar silicon**

Solar silicon (also known as polysilicon) is the basic material used in the production of crystalline solar modules. The production of solar cells necessitates silicon in an ultra-pure form (solar grade).

**●● Stand-alone system**

Stand-alone systems (also known as off-grid systems) are photovoltaic systems which are operated independently of the grid and which thus generate a self-sufficient supply of electricity. With these systems, the electricity produced is not fed into the grid but stored in accumulators from 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.

**●● Standard Test Conditions (STC)**

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 (kW) per square metre, a module temperature of 25 degrees Celsius and a solar irradiation angle of 45 degrees.

**●● String**

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

**●● System costs**

The system costs of a photovoltaic plant are a key factor for determining the investment costs and therefore the length of the period of amortisation. They are made up of the costs of all technical components (solar modules, installation system, direct current master switch, inverters, cabling and electricity meters) and of the work performed (development, planning, building, handover etc.). Financing costs, costs of official approval, expert opinions, legal advice and similar services are not part of the system costs.

**●● System integration**

The efficiency of a photovoltaic system depends to a great degree on the ideal interaction of all the individual components. The more technologies and products offered for selection in the market, the greater the optimisation potential through consistent system integration. The tasks of system integration include the selection and checking of the individual components, as well as the reconciliation of all details in accordance with requirements, for example the installation system, taking account of local conditions on the respective site.

**●● Temperature coefficient**

The temperature coefficient is an indication of the degree to which module output changes 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 in an integrated process. The thickness of the layer applied in this process is a mere 0.002 millimetres. The thin coating of the active substance, amorphous silicon (a-Si), copper indium (gallium) diselenide (CIS/CIGS) or cadmium telluride (CdTe) for instance, reduces the amount of material used and the manufacturing costs. Although, in comparison to crystalline modules, thin-film modules have lower conversion efficiencies, they have better temperature coefficients, are able to convert diffused light better and are less sensitive to shadowing.

**●● Turnkey power plant**

In photovoltaics, a turnkey power plant is a fully configured solar power plant consisting of solar modules, assembly system, inverters and cabling.

**●● Value chain**

The value chain is the whole mix of products and services which go to make up one product (solar power plant) or a service (system integration, operation), comprising all links in the chain, also including suppliers of raw materials and manufacturers, across system integrators and wholesalers and retailers through to the end customer.

**●● Wafer**

Wafers are round or rectangular silicon slices which are approximately 0.2 to 0.4 millimetres thick. In photovoltaics they are the primary product used in crystalline solar cells.

# FINANCIAL GLOSSARY

## ●● At-equity method

The at-equity method (also known as net method) is used in accounting in the recognition of participating interests when the parent company can exert a major but not controlling influence. The equity of the participation is disclosed on a pro-rata basis in the financial statements of the parent company.

## ●● Balance sheet

The balance sheet is a comprehensive listing of the assets and liabilities of a company and a reflection of its earnings capacity. Whereas the assets side provides information on the use of funds in the company, the liabilities side shows the source of funds and thus the financing.

## ●● Bearer share

A security which secures a fraction of the share capital of a stock corporation. The bearer provides proof of share ownership through his/her securities account.

## ●● Cap rate

The cap rate is the contractually agreed maximum interest rate, also known as strike rate.

## ●● Cash flow

The cash flow is an economic parameter which reflects the changes in cash and cash equivalents from the sales and other ongoing activities during a given period. The parameter facilitates an assessment of the extent to which a company is able to generate the funds required through sales processes for the preservation of the assets shown in the balance sheet and necessary for investment in expansion.

## ●● Cash flow statement

The cash flow statement quantifies changes in the liquidity potential over time and shows the causes of change.

## ●● Change-of-control clause

Opens up the options for managers, generally members of the Executive Board, to leave the company under conditions defined in the event of a change of control, for instance through a majority shareholder buying into the company.

## ●● Compliance

Compliance is defined as the observance of rules, codes of conduct and guidelines.

## ●● Cost-to-cost method

Sales and the income from contracts are recorded in the proportion of actual manufacturing costs incurred relative to the expected overall costs.

## ●● Covenant

Contractual loan agreement on the obligations of the borrower.

## ●● Derivatives

Derivatives are instruments which derive their value from other financial instruments. The value depends on the development of the price of the underlying.

## ●● Directors' Dealings

Private securities transactions carried out by people with management duties in listed stock corporations and related persons in the securities of the respective company. Pursuant to Section 15a of the German Securities Trading Act (WpHG), these transactions must be reported.

## ●● Discounted Cash Flow method (DCF)

Discounting of future excess cash flows to calculate the value of an enterprise.

## ●● Dividend

Payment made to the shareholders depending on profit.

## ●● D&O insurance (Directors&Officers)

An insurance policy covering financial loss liability taken out by a company for the Executive Board and Supervisory Board.

## ●● EBIT

Earnings before interest and taxes within a given period.

## ●● EBIT margin

Ratio of EBIT to sales divided by 100 and expressed as a percentage figure. The EBIT margin shows how much operating profit there is before interest and taxes, and the level of the financial result per sales unit.

## ●● Equity ratio

Share of equity in the whole share capital.

## ●● Fair value

The amount at which an asset could be exchanged or a liability settled in a transaction between expert willing parties acting independently of one another.

## ●● Forward transaction

With a forward transaction, the settlement of the respective transaction, i.e. the date of delivery and of the payment of the goods or services, will take place in the future.

## ●● FTE

Full-time equivalent; technical term from personnel management indicating how much a full-time position contributes to a performance indicator (e.g. sales) within a given period.

## ●● German Corporate Governance Code (GCGC)

The GCGC is a set of key statutory regulations on the management and supervision of German listed stock corporations and comprises recognised international and national standards on good and responsible corporate management. It is reviewed on an annual basis by a German Government Commission. Companies must explain deviations from the Code and publish a statement once a year.

## ●● Gross Domestic Product (GDP)

The total market value of all goods and services produced in a country in a given year.

## ●● Hedging transaction

Securing of a portfolio against changes in the interest rate by using derivative financial instruments.

●● **IAS**

International Accounting Standards; accounting standards used as a basis by many companies to draw up their annual and interim financial statements.

●● **IASB**

International Accounting Standards Board; regularly revises the International Accounting Standards (IAS) and gradually replaces them through International Financial Reporting Standards (IFRS).

●● **IFRIC**

International Financial Reporting Interpretations Committee; group which is part of the International Accounting Standards Committee Foundation (IASCF) and which publishes interpretations of IFRSs and IASs.

●● **IFRS**

International Financial Reporting Standards; international accounting standards issued by the IASB for companies. Capital market-oriented companies listed in Prime Standard of Deutsche Börse must apply IFRS in accordance with the German Commercial Code (HGB).

●● **Income statement**

The income statement itemises the revenues and expenses incurred in a given period. It is an integral part of the financial statements, alongside the balance sheet.

●● **Interest rate cap**

Contractual agreement on a maximum interest rate against payment of a premium.

●● **Interest rate swap**

An interest rate derivative is where two contractual parties (counterparties) agree to exchange one stream of future interest payments against another based on a specified principal amount.

●● **Market capitalisation**

A measurement of the current market value of a company on the stock exchange. It is calculated by taking the current share price and multiplying it by the number of shares issued.

●● **No-par value share**

As opposed to par value shares to which a certain amount in the share capital is assigned, no-par value shares securitise a percentage amount in the share capital of a company.

●● **Ordinary share**

Securitises all shareholder rights accruing to the owner; the most common form of shares on German stock exchanges.

●● **Outside-basis differences**

Amount in calculating and disclosing deferred taxes of a parent company based on hidden differences between the tax basis and the equity capital of a participation as against the corresponding amount recognised under IFRS.

●● **Percentage-of-completion method**

Option under IAS of – under certain conditions – disclosing revenues and income from contracts commenced but not yet completed in the income statement. Disclosure is made in proportion to the degree of completion.

●● **Prime Standard**

Sub-segment of the regulated market of Deutsche Börse for companies which fulfil particularly high transparency standards.

●● **ROCE**

Return on capital employed; shows EBIT in relation to capital employed within a period in order to reflect the profitability of total capital.

●● **Share capital**

The share capital of a company, also known as nominal capital, is the sum total of the nominal values of the ordinary and preference shares (issued). In the company's balance sheet, the share capital is disclosed as subscribed capital under equity divided into shares, with securitisation of the right of the shareholder in the company.

●● **Share option**

The right to purchase a certain number of shares at an agreed price (strike price) within a fixed period or at a certain time (call option).

●● **Subscription right**

Right of shareholders to subscribe to recently issued/new shares in proportion to their stake in the share capital up until that point. When subscription rights are exercised, the proportion in the share capital remains unchanged.

●● **Syndicated loan agreement**

A loan agreement between a company and a group of banks (syndicate).

●● **Waiver fee**

Fees remitted to obtain a waiver.

●● **Working capital**

Financial indicator denoting the liquidity of a company calculated by deducting current liabilities from current assets.



# ABBREVIATIONS

## ●● A

AC	alternating current
AG	Aktiengesellschaft (stock corporation)
AfS	Available for Sale
AIP	Annual Improvements Process
AktG	Aktiengesetz (German Stock Corporation Act)
AmC	Amortised Cost
AUD	Australian dollar

## ●● B

BOS	Balance of System
BSW	Bundesverband Solarwirtschaft (German Solar Industry Association)

## ●● C

CdTe	Cadmium Tellurid
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating Units
CIGS	Copper-Indium-Gallium-Selenide
CIS	Copper-Indium-Selenide
CO <sub>2</sub>	Carbon dioxide
COO	Chief Operations Officer
CSO	Chief Sales Officer
CTO	Chief Technology Officer
ct/kWh	eurocent per kilowatt hour
ct/MWh	eurocent per megawatt hour

## ●● D

D&O	Directors & Officers
DAX	Deutscher Aktienindex (German Share Index)
Dr.	Doctor
DC	direct current
DCF	Discounted Cash Flow

## ●● E

e.g.	for example
e. V.	eingetragener Verein (registered association)
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
EC	European Commission
EEG	Erneuerbare-Energien-Gesetz (German Renewable Energies Act)
EPIA	European Photovoltaic Industry Association
ERP	Enterprise Resource Planning
EU	European Union
EU PVSEC	European Photovoltaic Solar Energy Conference and Exhibition
EUR	euro
€ m	million euro

## ●● F

FSC	Forest Stewardship Council
FTE	Full-time equivalent

## ●● G

g	gram
GCGC	German Corporate Governance Code
GDP	Gross domestic product
GW	gigawatt
GWh	gigawatt hour
GWp	gigawatt peak output

## ●● H

HGB	Handelsgesetzbuch (German Commercial Code)
HfT	Held for Trading
HtM	Held to Maturity
HRB	Handelsregister B (German Commercial Register B)

## ●● I

IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICS	internal Control System
IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
IMF	International Monetary Fund
IT	Information Technology

## ●● J

JPY	Japanese yen
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## ●● K

k€	thousand euro
km	kilometre
kW	kilowatt
kWh	kilowatt hour
kWp	kilowatt peak output

## ●● L

LaR	Loans and Receivables
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## ●● M

MDAX	Mid-Cap-DAX
MIS	Management Information System
MW	megawatt
MWh	megawatt hour
MWp	megawatt peak output
MYD	Malaysian ringgit

## ●● N

NABU	Naturschutzbund Deutschland (Nature and Biodiversity Conservation Union in Germany)
no.	number

## ●● O

OCI	Other Comprehensive Income
OHSAS	Occupational Health and Safety Assessment Series
OMR	Omani rial

## ●● P

p.a.	per anno
para.	paragraph
PoC	Percentage of Completion
PPVX	Photon Photovoltaik-Aktien-Index (Photon Photovoltaic Stock Index)
Prof.	Professor
PV	photovoltaics
PV CYCLE	professional take-back program for photovoltaic modules
PY	prior year

## ●●Q

Q1/2/3 first/second/third quarter

## ●●R

RENIXX®

World Renewable Energy Industrial Index

ROCE Return on capital employed

## ●●S

SDAX Small-Cap-DAX

SGD Singapore dollar

SIC Standing Interpretations Committee

SOP Share Option Plan

SRI Sustainable and Responsible Investment

STC Standard Test Conditions

## ●●T

TecDAX Technology-DAX

## ●●U

US United States

USA United States of America

USD US dollar

US-GAAP US Generally Accepted Accounting Principles

## ●●V

VorstOG Gesetz über die Offenlegung der  
Vorstandsvergütungen (Executive Board  
Compensation Disclosure Act)

## ●●W

WKN Wertpapier-Kenn-Nummer  
(Securities Identification Number)

WpHG Wertpapierhandelsgesetz  
(German Securities Trading Act)

## ●●X

Xetra Exchange Electronic Trading

# EDITORIALS AND CONTACT

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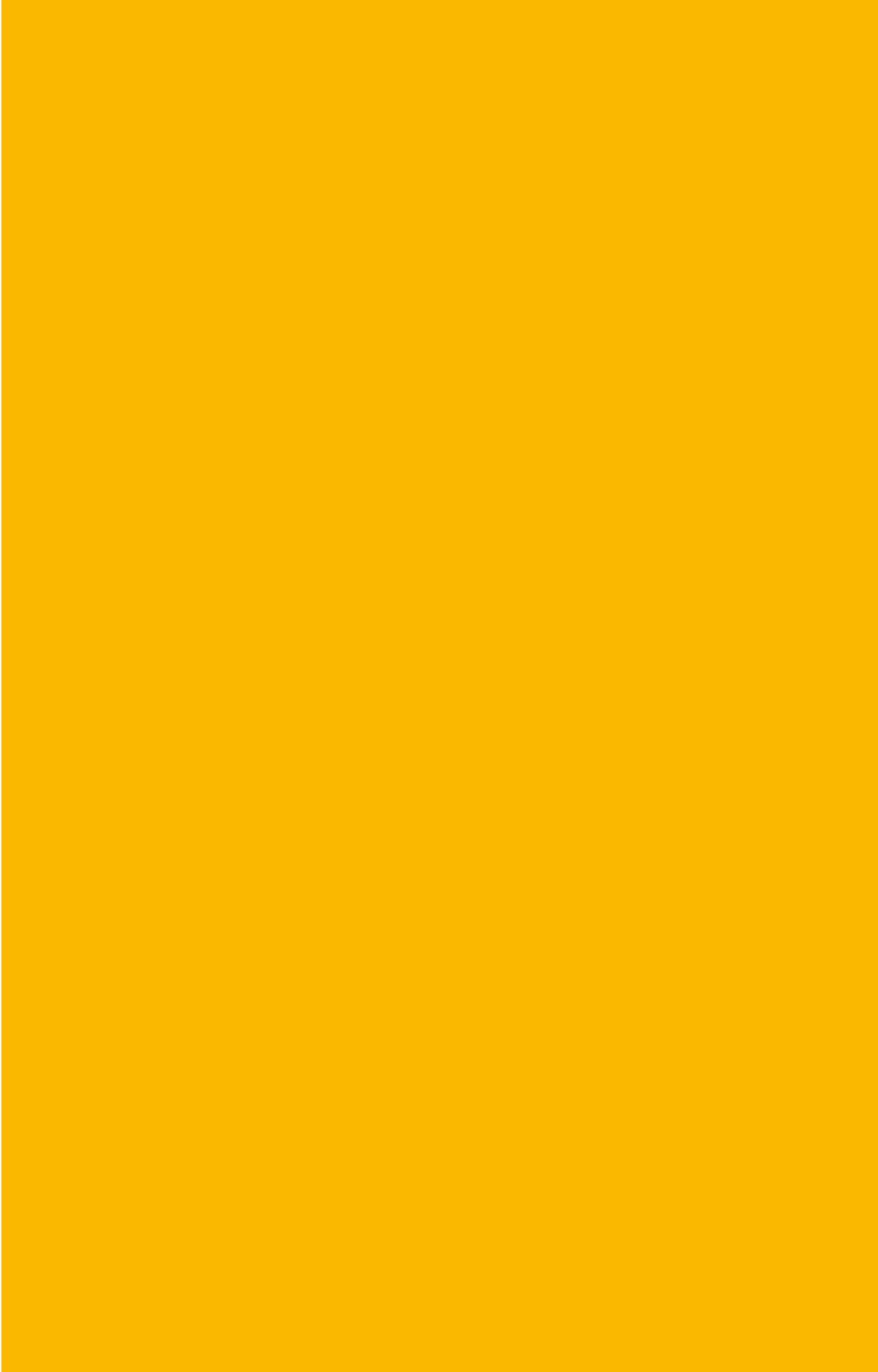
## PHOTOGRAPHY

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Christian Höhn, pages 13–15  
KGAL, page 20



## 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.



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Financial Calendar 2011

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18/04/2011 Annual Report 2010

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11/05/2011 Q1 Report/Interim Figures as per 31/03/2011

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14/07/2011 Ordinary Annual General Meeting of Shareholders 2011

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11/08/2011 Q2 Report/Interim Figures as per 30/06/2011

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10/11/2011 Q3 Report/Interim Figures as per 30/09/2011

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The updated financial calendar can be viewed on the Phoenix Solar AG website under [www.phoenixsolar.com/InvestorRelations/FinancialCalendar](http://www.phoenixsolar.com/InvestorRelations/FinancialCalendar)

This report is also available in German. Both versions are available for download on the Internet. This is an English translation of the German original. Only the German version is binding.

Group Structure as at 31/12/2010

Phoenix Solar AG Sulzemoos, Germany	100 %	<b>Phoenix Solar Pty Ltd</b> Adelaide, Australia
	100 %	<b>Phoenix Solar SAS</b> Lyon, France
	100 %	<b>Phoenix Solar E.P.E.</b> Athens, Greece
	100 %	<b>Phoenix Solar S.r.l.</b> Rome, Italy
	75 %	<b>Phoenix Solar Sdn Bhd</b> Kuala Lumpur, Malaysia
	70 %	<b>Phoenix Solar L.L.C.</b> Muscat, Oman
	75 %	<b>Phoenix Solar Pte. Ltd.</b> Singapore
	100 %	<b>Phoenix Solar S.L.</b> Madrid, Spain
	100 %	<b>Phoenix Solar Inc.</b> New Castle, DE, USA
	100 %	<b>Phoenix Solar Fonds Verwaltung GmbH</b> Sulzemoos, Germany
	100 %	<b>Phönix SonnenFonds GmbH &amp; Co. KG D4</b> Sulzemoos, Germany
	100 %	<b>8 special purpose entities</b> (see Notes A)
	31.2 %	<b>Phönix SonnenFonds GmbH &amp; Co. KG B1</b> Sulzemoos, Germany
		<b>OTHER HOLDINGS</b>

