CONSOLIDATION
ANNUAL REPORT 2011

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 Group develops, plans, builds and operates large-scale photovoltaic plants and is a specialist wholesaler for turnkey photovoltaic power plants, solar modules and accessories. With sales operations throughout the whole of Germany and subsidiaries on three continents, the company has sold solar modules with a peak power of more than one gigawatt since it was first founded. The shares of Phoenix Solar AG (ISIN DE000A0BVU93) are listed on the Regulated Market (Prime Standard) of the Frankfurt Stock Exchange.

Overview of financial figures

		01/01/2011 – 31/12/2011	01/01/2010 – 31/12/2010	Change
Revenues and results				
Revenues	k€	393,484	635,676	– 38.1 %
– Domestic	k€	168,490	471,199	– 64.2 %
– International	k€	224,994	164,477	36.8 %
Overall performance	k€	404,349	635,839	– 36.4 %
EBIT	k€	– 84,680	36,400	– 121,080 k€
– In % of revenues (EBIT margin)	%	– 21.5	5.7	– 27.2 %-points
Consolidated net income for the period	k€	– 86,375	24,134	– 110,509 k€
Orders on hand	k€	119,444	158,309	– 24.6 %
Balance sheet [1]				
Total assets	k€	143,903	313,307	– 54.1 %
Equity	k€	54,806	142,445	– 61.5 %
Equity ratio	%	38.1	45.5	– 16.3 %
Return on equity	%	– 60.6	24.8	– 85.4 %-points
Employees [1]				
Employees [2]	Heads	406	313	29.7 %
Revenues per capita [3]	k€	982	1,995	– 50.8 %
Phoenix Solar share [1]				
No-par bearer shares	Units	7,372,700	7,372,700	0.0 %
Closing price	€	2.15	23.70	– 90.9 %
Market capitalisation	k€	15,851	174,733	– 90.9 %
Earnings per share				
– Basic	€	– 11.80	3.44	– 15.24 €
– Diluted	€	– 11.80	3.44	– 15.24 €

[1] At the end of the period
[2] Average employee number, including part-time and temporary staff
[3] Full-time equivalent

CONSOLIDATION

Photovoltaics is a growth market – and is set to remain so in the future. The general framework conditions, however, deteriorated considerably in 2011. Severe cuts to government-backed programmes launched to promote the sector and surplus capacities, combined with the tumbling prices of solar modules, hampered profitable business. Indeed, the global solar industry is faced with huge challenges.

Phoenix Solar AG was also unable to decouple from this development. We have learnt important lessons from our negative revenue and earnings situation and were forced to make painful changes: the Group has acted with determination, optimised its internal workflows and subjected its business model to rigorous examination with the aim of aligning the company to the changed conditions in the market and making it fit for the future.

Not all markets participants will be successful in implementing the measures required to enhance efficiency and flexibility, which is why the process of consolidation in the photovoltaic sector will be ongoing. We are working hard to enable Phoenix Solar AG to return to the path of success and to safeguard the company's survival and its future sustainability.

CONTENTS

TO OUR SHAREHOLDERS 006–024

Letter to our shareholders 007
Executive Board of Phoenix Solar AG 009
Report of the Supervisory Board 010
Corporate Governance Report 015
Phoenix Solar share 020

MANAGEMENT REPORT 025–078

1 Business activity and framework conditions 027
2 Results of operations, cash flows and financial position 047
3 Employees 057
4 Sustainability 059
5 General assessment of the current economic situation 063
6 Events after the reporting date 064
7 Report on opportunities and risks 068
8 Forecast report 078

CONSOLIDATED FINANCIAL STATEMENTS 080–085

Consolidated income statement 081
Consolidated statement of comprehensive income 081
Consolidated balance sheet 082
Consolidated statement of changes in equity 084
Consolidated cash flow statement 085

NOTES

086 – 153

A. Basic principles and methods 087
B. Recognition and measurement methods 100
C. Notes to the consolidated income statement 110
D. Notes to the consolidated statement of financial position 118
E. Other notes to the consolidated financial statement 136
F. Other disclosures 137
G. Supplementary disclosure obligations pursuant to the German Commercial Code (HGB) 148
H. Date and signing of the consolidated financial statements 151

Affirmation by the legally authorised representatives 152
Auditor's report 153

ADDITIONAL INFORMATION

154 – 160

Review of the year 2011 155
Photovoltaic glossary 156
Editorials and contact 159
Financial calendar 160

Group structure

TO OUR SHAREHOLDERS

Letter to our shareholders 007
Executive Board of Phoenix Solar AG 009
Report of the Supervisory Board 010
Corporate Governance Report 015
Phoenix Solar share 020

LETTER TO OUR SHAREHOLDERS

Similar to the entire solar industry, Phoenix Solar AG has had a rough year, as you can see from the share price trend. Right through to the start of 2011 we were still hiring new staff across the board to be well prepared for another year of growth. Our expectations were, however, disappointed. Within the shortest space of time the photovoltaic market staged a breath-taking trend reversal.

Unforeseeable considerable cuts in the feed-in tariffs for solar power in several key markets of Phoenix Solar AG caused demand to cool notably in Germany and Europe. As a result, the market contracted in the first half of 2011 in comparison with the year-earlier period. The situation was exacerbated further by the cut-throat price war to sell solar modules, conducted worldwide, triggered by the surplus capacities build up in recent years, with unprecedented price declines of partly more than 40 percent in 2011 alone! The consequences: Our sales volumes fell and the impairment which we had to carry out on our stocks was substantial, with the resulting negative impact on our profitability.

The deterioration in the general environment was clearly reflected in our figures: Whereas the decline in our revenues in 2011 from EUR 636 million to EUR 393 million was virtually in line with the price trend, earnings came under enormous pressure. In the financial year ended, earnings before interest and taxes (EBIT) dropped from EUR 36.4 million to EUR –84.7 million. One ray of light: The share of international business in our sales revenues rose from 26 percent in 2010 to 57 percent, which has lowered our dependence on the German market proportionately.

How will Phoenix Solar find its way back to the path of success?

The poor development of our business prompted us to adjust our purchasing and sales policies, impose a block on ordering new merchandise and concentrate on destocking. Within one year we were able to reduce inventories by around EUR 94 million. The Executive Board had already launched a first cost cutting programme back in March, which was followed in the summer of 2011 by a general freeze on hiring new personnel and on expenditure.

Ultimately, the ongoing phase of tumbling prices in the second half of the year and the thereby caused consolidation pressure made a structural realignment of Phoenix Solar AG with a view to reinstating the Group’s competitiveness inevitable. The Group’s inability to fulfil the covenants under the current financing agreement also prompted us to commission an external consultancy company to draw up a turnaround concept.

The good news: The analysis showed that our business model, which services the two segments of Components & Systems and Power Plants, is both viable and sustainable. The return to profitability meant that we have had to let a great number of deserving employees go. Alongside personnel costs, we have made substantial reductions in other operating expenses, streamlined our organisation and set in place leaner core processes which are more flexible and leaner. We will conserve our newly won cost efficiency and forge ahead with internationalising our operations. The restructuring of Phoenix Solar AG is well on the way.

An important milestone was the signing of a new loan agreement with our syndicate banks on 11 May 2012. This agreement will secure the company's financing through to the end of March 2014. This is a huge success given the difficult situation in the solar industry.

May I ask you as our valued shareholders to continue to give us your support in these difficult times. At this point, I would like to express my special thanks to our employees who have experienced painful changes in recent months. They have borne the necessary process of readjustments within the company with above-average commitment. The entire Executive Board stands united behind the restructuring measures geared towards leading the company back to profitability and renewed growth on a sound basis.

With sunny greetings,

Dr. Andreas Hänel
(Chief Executive Officer)

EXECUTIVE BOARD OF PHOENIX SOLAR AG

CEO

DR. ANDREAS HÄNEL
Chief Executive Officer (CEO)
Born in 1958

Founding member of the company, sole member as from 1999 and CEO since 2000

COO

DR. MURRAY CAMERON
Chief Operating Officer (COO)
Born in 1962

Founding member of the company, member of the Executive Board since 2003 as well as CEO and President of Phoenix Solar Inc., USA, since 2012

CFO

DR. BERND KÖHLER
Chief Financial Officer (CFO)
Born in 1960

Member of the Executive Board since 1 December 2011 and CFO since 1 January 2012

SABINE KAUPER (CFO) left the company effective 31 December 2011.

ULRICH REIDENBACH (CSO) left the company effective 31 January 2012.

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board herewith submits its report to the regular Annual General Meeting of Shareholders, in particular on its audit of the financial statements in accordance with the separate financial statements and Management Report on the company as at 31 December 2011 as well as the consolidated financial statements and Management Report on the Group drawn up pursuant provisions laid down under the German Commercial Code (HGB) and on in its supervision of management during the financial year as well as in its statement on the report submitted by the independent auditor and the Executive Board's proposal on the unappropriated retained earnings.

GENERAL INFORMATION

In the reporting year, the Supervisory Board held nine regular meetings, two of which were closed-door sessions, and one extraordinary meeting. In doing so, it fulfilled the tasks incumbent on it under the law, the Articles of Association and the bylaws of the company. Moreover, owing to the situation of the company, the Supervisory Board informed itself in nine telephone conferences on the development of the restructuring process and measures taken. In the case of urgent matters, the Supervisory Board passed resolutions by way of telephone conference or by written circular procedure, whenever necessary.

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: Members J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle, Dr. Patrick Schweisthal and Prof. Dr. Thomas Zinser were re-elected at the Annual General Meeting of Shareholders on 16 June 2010. Oliver Gosemann and Dr. Torsten Hass have been members of the Supervisory Board since the end of the Annual General Meeting of Shareholders on 16 June 2010. Dr. Patrick Schweisthal is the Vice Chairman of the Supervisory Board.

In order to carry out its tasks effectively, the Supervisory Board formed three committees, namely the Audit Committee, the Personnel Committee and the Nomination Committee, made up of members from its own ranks. 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 the next respective meeting of the Supervisory Board.

In eight meetings, five of which in the presence of the independent auditor, and one telephone conference the Audit Committee established key audit areas and discussed interim reports, as well as examining the financial statements and the management reports on the company and the Group. The Chief Financial Officer took part in all meetings. Furthermore, the committee concerned itself with issues relating to accounting, the risk management and the liquidity management, and kept itself abreast of the status of negotiations with the syndicate banks. In addition, it took cognizance of the reports on the audit activities of Internal Audit and gained an insight into IT and process management. In addition, the tender procedure initiated by the Audit Committee in 2010 for the selection of an auditor for the financial year 2011 was progressed and brought to completion. The Audit Committee members are Prof. Dr. Thomas Zinser (Chairman), Oliver Gosemann and Dr. Patrick Schweisthal.

The Personnel Committee comprises J. Michael Fischl (Committee Chairman), Dr. Torsten Hass and Prof. Dr. Klaus Höfle. It met four times in the period under review when it focused on renewing the employment contract of one of the members of the Executive Board member and dealt with issues of succession, as well as on agreeing goals and reviewing the extent to which goals were achieved by the members of the Executive Board.

The Nomination Committee is made up of the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. During the reporting period, the committee followed the discussion on the composition of the Supervisory Board and discussed this issue at the regular meetings of the Supervisory Board.

In accordance with the resolution passed by the Annual General Meeting of Shareholders, the Chairman of the Supervisory Board mandated Munich-based PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft on 14 July 2011 pursuant to Section 111 para. 2 sentence 3 of the German Stock Corporation Act with the audit of the separate financial statements and the Management Report on the company, and the consolidated financial statements and the Management Report on the Group, drawn up in accordance with IFRS / IAS standards as required by Section 315a of the German Commercial Code. The independent auditor submitted an Auditor's Independence Declaration to the Audit Committee on 27 June 2011 in accordance with Code Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

On 10 March 2012, the Supervisory Board agreed on the Corporate Governance Report, drawn up pursuant to 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 together with the Executive Board. The Declaration of Conformity was published on 16 March 2012 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 SUPERVISION OF MANAGEMENT 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 the 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.

Owing to the crisis experienced by the company, the turnaround experts partly attended the meetings to report on the status of analyses and the restructuring opinion. In addition, the Supervisory Board held monthly telephone conferences with the Executive Board to advise it on the progress of restructuring and on the discussions with the financing syndicate.

The Supervisory Board was therefore involved in a timely manner in all decisions of fundamental importance to the company and the Group.

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

- consolidation through sustainable restructuring to secure the company as a going concern in collaboration with the restructuring consultant;
- discussion and preparation of the next steps in the event of failure of consolidation and of discussions with the banks;
- reorganisation and securing of the financing base of the Group and the subsidiaries;
- personnel reduction, while safeguarding the company's competitive ability;
- cognizance of the development of instruments designed to optimise procurement and inventory management;
- concept for a sustainable market development and sales strategy;
- assessment of the consequences of the political discussions on lowering feed-in tariffs in the key regions, such as Germany, southern and southeast Europe and the US because of the phase-out of the "1603 cash grant" at the end of 2011, in respect of the corporate policy;
- analysis of alternatives and additional business lines to reduce the risk of the strong dependence on political decisions;
- acceptance and discussion of the reports of the Executive Board in accordance with Section 90 of the German Stock Corporation Act on the liquidity and financial position, the intended corporate policy and other fundamental issues relating to corporate planning (particularly financial, investment and personnel planning);
- monitoring the ongoing development of the internal control system (risk monitoring and early warning system pursuant to Section 91 para. 2 of the German Stock Corporation Act) and the information obtained therefrom;
- acceptance of reports submitted in the context of the compliance management system;
- monitoring the company's stock market value;
- discussion of the stage of development reached by the individual segments and subsidiaries;
- review and discussion of material contractual problems and projects;
- addressing the content of the German Corporate Governance Code;
- contractual regulations and changes in the Executive Board;
- size and structur of the Supervisory Board.

Conflicts of interest in respect of the members of the 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 should 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 in good time before the meeting of the Supervisory Board:

- the annual financial statements and the proposal of the Executive Board on the unappropriated retained earnings in the financial year 2011;
- the report by the Executive Board on the situation of the company in 2011;
- the consolidated financial statements for the year 2011 pursuant to the standards laid down under IFRS / IAS;
- the report by the Executive Board on the situation of the Group in 2011.

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 PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The audits did not give rise to any objections; unqualified audit opinions were issued.

The Audit Committee examined the annual financial statements and 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 12 May 2012, 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 auditor who reported on the main findings, the key areas and the scope of the audit and was 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 procedures for achieving the 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 substantiation underlying the 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 the operations of the company.

The Supervisory Board 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.

In its meeting on 12 May 2012, and following consultation with the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act, the Supervisory Board has 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 2011 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 2011 were ratified by the Supervisory Board in its meeting on 12 May 2012, and are thereby adopted.

The remaining accumulated loss will be carried forward to new account.

Furthermore, the Supervisory Board ratified the consolidated financial statements as at 31 December 2011 and the Management Report on the Group for the financial year 2011.

Sulzemoos, 12 May 2011

J. Michael Fischl
(Chairman of the Supervisory Board)

CORPORATE GOVERNANCE REPORT

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

In the reporting year as well, the Executive Board and the Supervisory Board also dealt extensively with the fulfilment of the guidelines set out under the recommendations of the Government Commission on the German Corporate Governance Code in the version dated 26 May 2010 published by the German Federal Ministry of Justice in the official section of the electronic German Federal Gazette. There were no amendments to the Code of the Government Commission on the German Corporate Governance Code (GCGC) in 2011. The respectively valid version of the German Corporate Governance Code can be accessed on the website of the Government Commission on the German Corporate Governance Code under http://www.corporate-governance-code.de/index-e.html.

The recommendations and important suggestions are implemented at Phoenix Solar AG, with only a few exceptions. Any departures are described in the Declaration of Conformity and the reasons given. All declarations of conformity submitted to date have been made permanently available on the website of Phoenix Solar AG.

DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As a company with increasingly international operations, Phoenix Solar is giving greater attention to the issue of diversity. We view diversity and equal opportunity as fundamental principles in our working environment. There are employees from more than 20 different countries working at Phoenix Solar. Almost 30 percent of the workforce did not come from the company's home market of Germany. At the end of 2011, around 20 percent of managerial positions at Phoenix Solar AG were held by women. The average age of the workforce is 38 years.

EXPERTISE OF THE SUPERVISORY BOARD

The Supervisory Board holds a closed-door session once a year to analyse the expert and personal prerequisites necessary for the fulfilling of its tasks based on an extensive review of the status quo. These prerequisites are then measured against an analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis) of the potential embodied by the Supervisory Board. This forms the basis for the continuous professional development of the respective persons and for filling positions on the board.

The manifold responsibilities and tasks of the Supervisory Board (e.g. finance, law, marketing and expertise regarding photovoltaics, management of international companies, corporate and project financing, personnel management) are in essence represented by the focus of expertise of its individual members. Beyond this, the interpersonal skills of the respective person are to be considered in the selection of members, along with professional competence.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Phoenix Solar AG is composed of a total of six members elected by the Annual General Meeting of Shareholders. In Oliver Gosemann, the Supervisory Board has a member with extensive international entrepreneurial experience, which fulfils the criterion of internationality. Prof. Dr. Thomas Zinser has expertise in accounting and statutory auditing. The Supervisory Board is currently made up of independent members. These members do not maintain business or personal relationships with the company or its Executive Board which could constitute a conflict of interest nor do they exercise an advisory or supervisory function in respect of customers, suppliers, lenders or other business partners of the company. At present there are women on the Supervisory Board.

In view of the special challenges inherent in the business activities of Phoenix Solar AG, the share in international business and the size of the company and the Group, the Supervisory Board passed a resolution on 26 January 2012 with the following objectives regarding the future composition of the Board:

- In the future as well, at least one member of the Supervisory Board shall in particular embody the criterion of internationality, either through being a foreign national and/or through having significant international experience.
- In the future, at least two independent members, i.e. 33 percent, must be represented on the Board.
- In respect of the proportion of women making up the workforce of Phoenix Solar AG, which came to 33 percent at the end of the financial year 2011, the Supervisory Board considers it appropriate to have at least two women members on Supervisory Board. Achieving this proportion has been envisaged in the medium term.
- The age limit for members of the Supervisory Board is 67.

In future proposals for election, the Supervisory Board will take into account that the objectives defined for the composition of the Supervisory Board in respect of women Supervisory Board members have not been fulfilled. By contrast, the other objectives have already been implemented.

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Entrepreneurial activity harbours risk. Opportunities missed, however, may also be risks. It is therefore our responsibility to optimise the opportunities for the company while keeping risks to a minimum. Phoenix Solar AG has installed risk management as a permanent process spanning all areas of the company and based on the identification, assessment, management and control of risks that have arisen. Beyond risks to the company as a going concern, activities, events and developments that could have a significant impact on the success of the company's business in the future are also recorded. The goals, processes and distribution of tasks within the scope of the risk management system are documented in a risk management manual in the company.

Phoenix Solar AG has a clear management and organisation structure where key functions across all areas of the company are managed centrally. In respect of finance and financial reporting, integrity and responsibility are inherent in compliance with valid guidelines on accounting and other directives relevant for the accounting process. These are binding on all parties involved in this process.

The internal control and risk management system ensures that, with respect to the process of (Group) accounting, entrepreneurial transactions are properly captured and accounted for and correctly mapped in the accounting system. Suitable staffing, the use of appropriate software and 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

Notifications on the securities transactions of the Executive Board and the Supervisory Board in the shares of Phoenix Solar AG within the meaning of Section 15 a (Directors' Dealings) of the German Securities Trading Act (AktG) are listed in an updated form on the company's website at www.phoenixsolar-group.com under the Investor Relations heading and can be viewed for the space of one month. The insider guidelines of Phoenix Solar AG provide a blackout period which spans the time from the end of the period up until the publishing of the business results. The recommendation to insiders is that they should refrain from trading in the shares of the company during this period. External insiders, suppliers for instance, are also notified of this blackout period.

In the financial year 2011, a number of individual reportable transactions within the meaning of Section 15 a of the German Securities Trading Act were carried out by one member of the Executive Board. Not reportable pursuant to Section 15 a of the German Securities Trading Act are the purchase or sale of the shares of Phoenix Solar AG if the sum total of transactions carried out by an individual member of the Executive Board of the Supervisory Board, or a person related to them, does not reach or exceed an amount of EUR 5,000. The table below is an overview of the shareholdings (direct and indirect) of the Executive Board in the shares issued by the company:

	Units	Holding %
Dr. Andreas Hänel	231,200	3.14
Dr. Murray Cameron	69,750	0.95
Dr. Bernd Köhler	0	0
Sabine Kauper	190	< 0.01
Ulrich Reidenbach	216	< 0.01
Executive Board, total	**301,356**	**4.09**

As per 31/12/2011

At Supervisory Board level, Prof. Dr. Klaus Höfle (1,575 shares), Dr. Torsten Hass (400 shares) and Oliver Gosemann (300 shares) hold shares in the company. As per 31 December 2011, the Supervisory Board therefore held 0.03 percent (2010: 0.03 percent) in the share capital of the company. The members of both bodies together hold shares amounting to 4.12 percent (2010: 5.86 percent).

COMPENSATION REPORT

The details of the compensation system of the Executive Board and the Supervisory Board, as well as itemised compensation, are included under 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 members of the Executive Board or which have changed during the financial year are disclosed under 1.3 “Report pursuant to Section 315 (4) HGB” in the Management Report.”

STATEMENT ON CORPORATE GOVERNANCE

pursuant to Section 289 a of the German Commercial Code (HGB) with the Declaration of Conformity by the Executive Board and the Supervisory Board of Phoenix Solar AG in respect of the German Corporate Governance Code pursuant to Section 161 of the German Securities Trading Act (AktG)

In accordance with Section 289 a of the German Commercial Code, Phoenix Solar AG is obliged to submit a statement on corporate governance which is either included and published in the management report as part of the annual report or, alternatively, made available to the public on the company’s website.

Phoenix Solar AG has elected the latter option.

As a German company listed on the stock exchange, corporate governance at Phoenix Solar AG is determined first and foremost by the German Stock Corporation Act and, beyond this, by the recommendations of the German Corporate Governance Code in the respectively valid version.

COLLABORATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and the Supervisory Board constitute the dual board system of management and control of Phoenix Solar AG. They work closely together to ensure 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 manage the company under their own responsibility and cooperatively. The basis for their cooperation is a set of bylaws. The Executive Board develops the corporate strategy and decides on measures for its implementation at the operational level. A clear allocation of tasks 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 an appropriate period of time and extensively about all issues pertaining to the development of business, the strategy and planning, risk management and compliance with laws and defined codes of conduct. The Supervisory Board is informed immediately in the event of important occurrences which could exert a major impact on the company.

The Supervisory Board, which consists of six members, supervisors and advises the Executive Board in the management of the company. The Supervisory Board has laid down a set of bylaws as the basis for collaboration. The Supervisory Board 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. Apart from the regular meetings, the Chairman of the Supervisory Board 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

In order 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 are also binding on the committees. Reports on the work of the committees are regularly made to the Supervisory Board.

The Audit Committee has three members: Prof. Dr. Thomas Zinser (Committee Chairman), Oliver Gosemann and Dr. Patrick Schweisthal. Among other duties, 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 the interim report. The regulations set out under the GCGC requiring the Chairman of the committee to 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-based compensation of the members of the Executive Board and for ascertaining the extent to which goals had been achieved. In addition, the committee draws up the Executive Board member contracts and put forward proposals for long-term succession planning for the Executive Board. One of the tasks and responsibilities of the Committee in 2011 was to submit proposals to the Supervisory Board for successor candidates to take over as Chief Financial Officer from Sabine Kauper. The Personnel Committee is made up of the following members: J. Michael Fischl (Committee Chairman), Dr. Torsten Hass and Prof. Dr. Klaus Höfle.

The Nomination Committee is made up of the following members: J. Michael Fischl (Committee Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser.

JOINT DECLARATION OF CONFORMITY DATED 16 MARCH 2012

The Executive Board and the Supervisory Board of Phoenix Solar AG herewith declare that, since the last Declaration of Conformity dated 18 March 2011, Phoenix Solar AG complies and has complied with the recommendations of the Government Commission's German Corporate Governance Code in the version dated 26 May 2010, to the exception of the following:

CHANGING PERFORMANCE TARGETS OR THE COMPARISON PARAMETERS RETROACTIVELY SHALL BE EXCLUDED IN THE VARIABLE COMPENSATION COMPONENTS (in accordance with Code Item 4.2.3)

From the standpoint of Phoenix Solar AG, adjusting performance targets and/or comparison parameters can be both expedient and justifiable in exceptional situations given that the market environment is characterised by a dynamic pace of development.

THE AUDIT COMMITTEE IS ALSO TASKED IN PARTICULAR WITH ADDRESSING ISSUES OF COMPLIANCE (in accordance with Code Item 5.3.2)

Compliance issues are dealt with by the Personnel Committee because of the experience of the Chairman of the Supervisory Board who is also Chairman of this committee.

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

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

DEADLINE 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. The financial statements will be published on the company's website a few days after the Supervisory Board meeting which adopts them.

Sulzemoos, 16 March 2012
Phoenix Solar Aktiengesellschaft

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

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

PHOENIX SOLAR SHARE

STOCK MARKET ENVIRONMENT

The global stock markets have been through a turbulent year: earthquake, tsunami and nuclear catastrophe in Japan, the escalation of the debt crisis and fears of a recession rocked the markets in 2011 and caused double-digit losses on the DAX. The German stock market lagged more than 15 percentage points behind S&P 500, the US leading stock index. Better-than-expected economic development boosted America's standard equities by 1 percent overall. In contrast, the high weighting of banks in the EuroStoxx 50 caused Europe's leading index to shed 17.5 percent of its value as well. Similarly, Asia's most important indices posted double-digit percentage losses over the year as a whole. The euro also came under pressure from the crisis. At the end of 2011, the European common currency closed at its lowest level since September 2010. The US dollar and the yen appreciated sharply as against the euro. With an uneven performance, commodities were unable to repeat the trend in the previous year when they rose across the board.

The DAX, which initially firmed up, was also ultimately unable to decouple from the economic problems. Having peaked at 7,600 points in May, Germany's leading index tumbled in the summer, losing around 25 percent within the space of three months. During the subsequent rally, fluctuations became less pronounced and the DAX brought the year to the close at 5,898 points. This is the equivalent of a loss of 14.7 percent compared with the previous year when the index climbed by around 16 percent. Over the last decade only the crisis year 2008 saw share prices fluctuate more sharply.

The MDAX lost 12.1 percent, falling to 8,897 points. The poor performance of the SDAX, which came to minus 14.6 percent, mirrored that of the DAX. The TecDAX, which consists of the 30 largest technology companies below the DAX, emerged from trading at 685 points on 30 December 2011, thereby shedding 19.5 percent in comparison with the previous year.

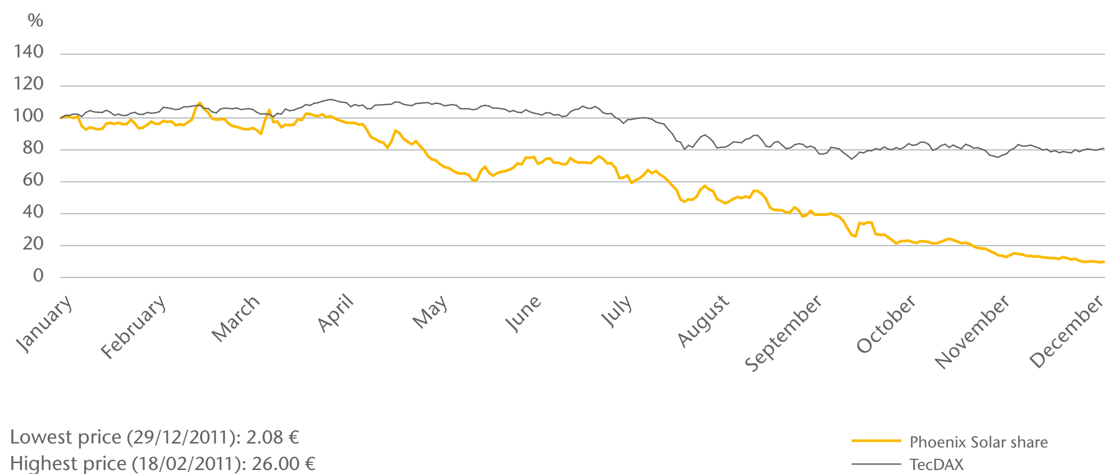
The equity prices of German solar companies slumped in a range of between 30 and 90 percent in 2011. Excess capacities, price wars and the reduction in feed-in tariffs, accompanied by insolvencies, triggered a flurry of selling solar shares. The poor performance of the TecDAX is primarily attributable to the weakness of solar equities. The Photovoltaic Global 30, the sector's index, closed at year-end at around 61 percent down on the year before.

SHARE PRICE PERFORMANCE

Despite its high volatility in the first quarter, the share of Phoenix Solar AG moved sideways and closed on the last trading day with a slight increase of 1.2 percent as against the final quarter in 2010. The share sustained considerable losses in the second quarter and posted EUR 17.25 on 30 June 2011 which is 28.1 percent lower than the year-earlier quarter. The equity came under a great deal of selling pressure in the third quarter when it fell to EUR 8.32, shedding 51.8 percent of its value. The steep decline in the share price was attributable to the slow development of business, the mounting problems in the solar industry, with the first bankruptcies on the manufacturer front, compounded by poor market sentiment for solar equities in a negative stock market environment. The removal of the share of Phoenix Solar AG from the TecDAX on 19 September resulted in a slew of more major sell-offs. The closing quarter of 2011 was impacted by the forecast for revenues and profits which was revised downwards for the year as a whole, downgrading by analysts and the insolvency of two German solar companies shortly before Christmas. The share price lost another 74.2 percent in the fourth quarter alone.

In the financial year ended, the share of Phoenix Solar AG shed 90.9 percent of its value and emerged from Xetra trading to close the year at EUR 2.15 on 30 December 2011 (30 December 2010: EUR 23.70). Having peaked at EUR 26.00 on 18 February, the share price reported its lowest level of EUR 2.08 on 29 December.

Price performance of the Phoenix Solar share versus the TecDAX (01/01/– 31/12/2011)



Lowest price (29/12/2011): 2.08 €
Highest price (18/02/2011): 26.00 €

Phoenix Solar share
TecDAX

The market capitalisation of Phoenix Solar AG came to EUR 15.6 million on 31 December 2011 (31 December 2010: EUR 174.7 million). In terms of its trading volume, the share posted an average daily turnover of 63,327 units in the fourth quarter of 2011 compared with 47,248 in the third, 62,360 in the second and 56,437 in the first quarter.

ANNUAL GENERAL MEETING AND DIVIDEND DISTRIBUTION

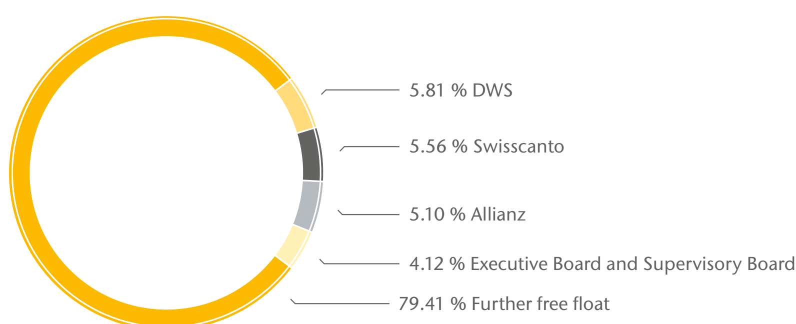
The regular Annual General Meeting of Phoenix Solar AG took place on 14 July 2011 in Fuerstenfeldbruck. All items on the agenda were approved with majorities of between 84.48 percent and 99.80 percent. Presence during the casting of votes came to 34.23 percent of the voting share capital of EUR 7,372,700. The shareholders accepted the proposal of the Executive Board and the Supervisory Board for the appropriation of the profit available for distribution in the financial year 2010 and approved the distribution of dividend amounting to EUR 0.35 (previous year: EUR 0.20) per share. The dividend was disbursed to our shareholders on 15 July 2011 by the custodian bank. Given a gross dividend of EUR 2.6 million, the dividend ratio in relation to the annual net income of Phoenix Solar AG (pursuant to the German Commercial Code) stood at 4.03 percent (previous year: 3.09 percent).

We fundamentally pursue an investor-oriented dividend policy which accords with company growth and the respective business situation. The company paid dividend for the previous financial year for the first time in 2007. Owing to the high level of losses sustained in the financial year 2011, the company will not be paying dividend for this year.

SHAREHOLDER STRUCTURE

In the financial year 2011, we received a number of notifications submitted pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG) in which shareholders indicated that their holdings had reached, exceeded or fallen below the statutory thresholds. The shareholder structure as per 31 December 2011, and as known to Phoenix Solar AG, is shown below:

Shareholder structure as per 31/12/2011



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

We pursue the goal of effective financial communication by enhancing the efficiency of information exchanged between the company and the capital market, by providing extensive information, flanked by active support in the forming of the expectations of the capital market. Key topics of Investor Relations in 2011 were the impact of the dramatic declines in the prices of modules on Phoenix Solar AG's business, as well as the protracted restraint in demand, the Group's financial position and its strategy of internationalisation. Moreover, the natural and nuclear disaster in Japan, the political debate on Germany's exit from nuclear power and the negative stock market environment for solar equities were among the key issues addressed by our Investor Relations activities.

Phoenix Solar AG took part in ten capital market conferences in Germany and abroad in the financial year 2011. In February, we participated in the HSBC Small/Mid Cap SRI Conference organised by HSBC Trinkaus & Burkhardt, and in March in the Commerzbank's Growth & Responsibility Conference, both events in Frankfurt am Main, Germany. The Executive Board and the Investor Relations department presented the Group at the UBS's Global Clean Energy Conference in London in April and at the m:access Analyst Conference of the Munich Stock Exchange in May, as well as at the Luxembourg Event of HSBC Trinkaus & Burkhardt. These events were followed in June by the Intersolar Investor Conference arranged by MainFirst Bank in Munich. September saw us participate in the Global Renewables and Clean Technology Conference held by Barclays Capital in Zurich and the German Investment Conference organised by UniCredit in Munich. In October, the company was represented at the UBS Global Solar One-on-One Conference and the Jefferies Solar Symposium in Dallas. Together with a number of brokers, we made or renewed contact with investors and buy-side analysts and stepped up the exchange of information in

the context of seven road shows in total held in Dublin, Geneva, London, Paris and Zurich in Europe as well as San Francisco in the US in the financial year ended.

Along with conferences and road shows, there were many group and one-to-one discussions with financial analysts and institutional investors as well as with representatives of the business and financial press at our company headquarters in Sulzemoos. We were also available for the exchange of information at regular intervals through telephone conferences which were additionally organised upon the release of the respective financial reports. Moreover, we also engaged in dialogue with private shareholders and responded promptly to their questions.

The Intersolar Europe, the industry's most important trade fair which took place in Munich in June, attracted many investors and analysts who made appointments for meetings at our trade fair stand. More meetings took place at the 26th European Photovoltaic Solar Energy Conference and Exhibition (EU PVSEC) in Hamburg in September. In October, we took part in Solar Power International (SPI), the largest US trade fair held in Dallas, and met many different market participants for discussions. The Executive Board presented the company at the 12th Forum Solarpraxis in Berlin in November.

Prior to the Intersolar Europe, the Executive Board and other managers made presentations on the strategic focus of the company at the Capital Market Day 2011 of Phoenix Solar AG, organised in Munich on 7 June and attended by around 50 investors and analysts.

The company's Financial Calendar 2012 has been posted on our website under the "Investor Relations" heading and is regularly updated to include new events.

ANALYST COVERAGE

At the end of the financial year 2011, a total of 15 financial institutions were reporting regularly on the Phoenix Solar share. Eleven banks and research houses are domiciled in Germany and four in other countries. An update of analyst recommendations can be viewed on our website under the "Investor Relations" heading.

Key share data

		Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	2010
Number of shares[1]	units	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700
Market capitalisation[1]	€	176,797,346	127,179,075	61,340,864	15,851,305	15,851,305	174,732,990
Closing price (Xetra)	€	23.98	17.25	8.32	2.15	2.15	23.70
Highest price	€	26.00	24.28	17.95	8.08	26.00	45.00
Lowest price	€	21.34	14.35	8.32	2.08	2.08	20.90
	units	3,611,987	3,928,676	3,118,506	4,052,196	14,711,365	13,357,952
Trading volume	€	84,402,577	72,261,465	38,884,920	17,446,354	212,995,316	392,402,712
Dividend	€	–	–	–	–	–	0.35
	€	– 1.76[2]	– 1.11[2]	– 5.52[2]	– 11.80[2]	– 11.80[2]	3.44[2]
Earnings per share	€	– 1.76[3]	– 1.11[3]	– 5.52[3]	– 11.80[3]	– 11.80[3]	3.44[3]

[1] At the end of the period
[2] Basic earnings per share
[3] 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 31/12/2011	7,372,700 units
Share capital as per 31/12/2011	€ 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	CDAX, DAX International Mid 100, Prime All Share, Technology All Share, diverse sector and sub-sector indices of Deutsche Börse AG, Photovoltaic Global 30 Index
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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MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2011

1 **Business activity and framework conditions** 027
1.1 Group structure and business activity 027
1.2 Management, goals and strategy 034
1.3 Report pursuant to section 315 (4) HGB 036
1.4 Overview of business developments in 2010 038

2 **Results of operations, cash flows and financial position** 047
2.1 Results of operations 047
2.2 Cash flows 055
2.3 Financial position 056

3 **Employees** 057
3.1 Vocational training and continuing education 058
3.2 Corporate culture and personnel strategy 058

4 **Sustainability** 059
4.1 Environmental protection 059
4.2 Employees 062
4.3 Social engagement 062
4.4 Rating 062

5 **General assessment of the current economic situation** 063
5.1 Management's assessment of the economic situation 063
5.2 Estimate-sensitive accounting methods 063

6 **Events after the reporting date** 064
6.1 Important events after the reporting date 064
6.2 Possible effects of these events on the results of operations, cash flows and financial position 067

7 **Report on opportunities and risks** 068
7.1 Management of opportunities and risks 068
7.2 Report on risks related to financial instruments 069
7.3 Opportunities 069
7.4 Risks 070

8 **Forecast report** 073
8.1 Future strategic orientation of the group 073
8.2 Prospects in the most important sales markets 073
8.3 General economic conditions 074
8.4 Anticipated business development 075
8.5 Anticipated development of cash flows and liquidity 076
8.6 Future dividend policy 076
8.7 Medium-term outlook 077
8.8 General assessment of the executive board regarding the anticipated development of the group 077

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 Record No. 129117 on 7 January 2000. Besides the parent company, the Group comprises 11 subsidiaries and 33 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 Executive Board, which is currently composed of three members, manages the central divisions from this location. The Chief Executive Officer is responsible for Corporate Strategy & Business Development, Worldwide Sales, Marketing and Public Relations. The Chief Financial Officer is responsible for Finance, Personnel & Organizational Development, International Process and IT Management, Controlling & Internal Audit, Investor Relations and Legal & Compliance. The Chief Operating Officer is responsible for Procurement, Logistics, Quality Assurance & Complaints and Technology & Innovation. At the present time, the Chief Operating Officer is concurrently serving as the CEO and President of the U.S. subsidiary. Parts of the Power Plants segment, i.e., power plant construction and operations management and maintenance service (power plant maintenance), are located in the Ulm branch.

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. These two focal points are reflected in the operating 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 U.S. subsidiary has only been active in the project business to date.

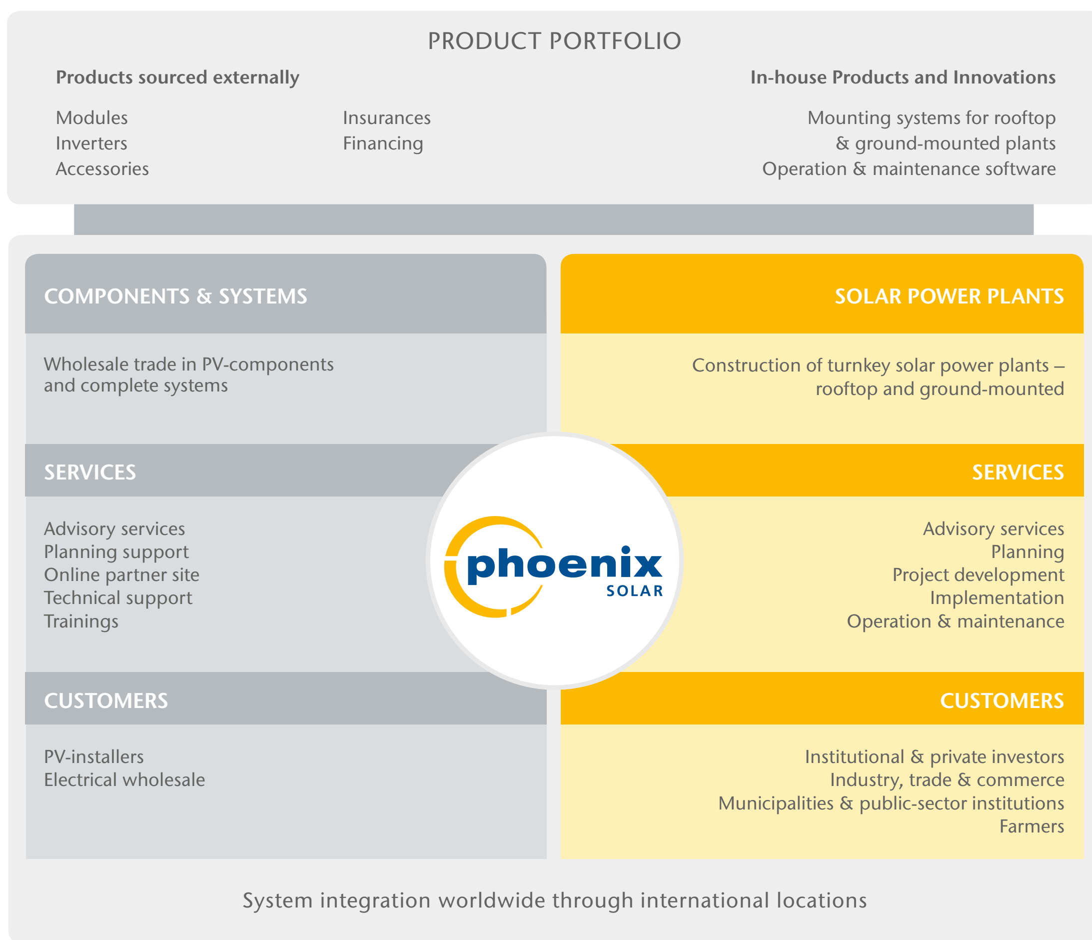
In addition to supplying individual components for photovoltaic plants, the Components & Systems segment also develops tailored system solutions, provides planning support and offers logistical and other services, such as training and marketing support, for example. The customers of this operating segment include resellers and installation companies (including electrical installation companies), as well as retailers and wholesalers of electrical products, heating and sanitation companies, roofers and solar power specialists. Phoenix Solar has established a dense, nationwide network of partners in Germany and is in the process of establishing similar networks in selected international markets, on a step-by-step basis.

In its Power Plants segment, Phoenix Solar handles the necessary planning work and the turnkey construction of photovoltaic systems, including the subsequent operational management and maintenance. Customers include private individuals, retail companies, industrial companies and trade companies. Other target customers are primarily institutional investors, institutional investors, which are either seeking to set up investment fund models or to hold large-scale photovoltaic plants in their own portfolios.

By means of this business model, Phoenix Solar covers all sizes of grid-connected photovoltaic systems, from roof-top systems with a peak output of one kilowatt (kWp) mounted on private homes to large power plants in the double-digit multi-megawatt range. The two operating segments complement each other ideally and generate a number of synergies, which are systematically exploited. For example, the joint procurement of components, such as solar modules, for example, generates synergistic advantages in the form of lower procurement prices, which manufacturers are willing to grant on higher purchasing volumes.

As a manufacturer-independent systems supplier, Phoenix Solar can always offer the latest, state-of-the-art technology. Furthermore, it can tailor its offering of products and services to fulfil the exact requirements of customers and so offer optimal solutions at a good price-benefit ratio for the customer.

Business Model



1.1.3 MAJOR LOCATIONS

Through its subsidiaries and representative offices, Phoenix Solar AG maintains an active presence in all key photovoltaic markets and offers its products and services on a worldwide basis.

Company locations

24 new project companies were formed in 2011: CE Solaire SAS and Batisolaire 3 SAS in France, SP1 d.o.o. in Slovenia, FE5 s.r.l. in Italy, Kazanlak Holding EOOD with ten other project companies in Bulgaria, and SOMI GmbH with eight project-related subsidiaries in Germany. The Italian project company TPC Photoenergy srl. was liquidated and struck from the Commercial Register. The CE Solaire SAS project was executed in financial year 2011 and has already been sold.

1.1.4 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops the Group's business strategy, in coordination with the Supervisory Board. The business strategy is reviewed annually and adjusted to reflect the dynamic development of the international solar power market and the rapid changes in the market introduction programs of photovoltaic products and systems. The medium-term goal is to serve markets that are 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 (43) 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. The Executive Board makes decisions on relevant issues and holds intensive, regular consultations on important developments in the managerial divisions. 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 Singapore, the United States and Italy.

Please also refer to the Declaration of Conformity of the Executive Board and Supervisory Board pursuant to Section 161 AktG, which is presented in the Corporate Governance Report.

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.

Each member of the Executive Board receives a fixed salary, which is subject to an annual review, and a variable compensation component, which is tied to personal and quantitative goals. Since 2011, the goals to be fulfilled for the quantitative variable compensation component are determined on the basis of a representative peer group. For that purpose, the performance of Phoenix Solar AG is 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 earnings per share (EPS) of the last three years, respectively. 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 level of responsibility, 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 2011, 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.

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, which was developed by the Swiss research firm Obermatt. The EBIT hurdle ensures 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 advantages of the bonus index

system developed by Obermatt lie in the fact that it allows for the objective measurement of performance by comparing revenues and earnings with those of similarly positioned companies. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the operating rank, which is determined by comparing the company's revenues and EBIT with those of comparable exchange-listed companies that publish appropriate financial reports. The compensation is calculated by multiplying a base amount, which is specifically agreed with the respective Executive Board member, by a multiplier that is derived from the performance ranking within the comparison group. The multiplier can only be greater than 0 when Phoenix Solar's rank is better than the last quantile of the comparison group. If Phoenix Solar is ranked No. 1, the multiplier takes the maximum value of 3. In that case, Phoenix Solar has outperformed all the comparison companies. 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, unless the EBIT hurdle is applicable in the subsequent financial year; if the EBIT hurdle is applicable, the second instalment can be carried forward by one year, but will be forfeited in the second subsequent year if the EBIT hurdle is also applicable in that year.

The components with a long-term incentive effect consisted of the contributions paid to a company pension plan.

The number of stock options granted is 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 five 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 2011 amounted to EUR 947 thousand (PY: EUR 1,798 thousand). This compensation is presented on an individually itemised basis in the table below:

	Non-success-dependent components T €		Success-dependent components T €		Components with a long-term incentive effect T €		Total T €	
	2011	2010	2011	2010	2011	2010	2011	2010
Dr. Andreas Hänel	255	176	42	171	0	139	297	486
Dr. Bernd Köhler*	16	0	4	0	5	0	25	0
Dr. Murray Cameron	157	140	33	127	0	125	190	392
Sabine Kauper	166	163	32	154	0	139	198	456
Ulrich Reidenbach	210	171	27	154	0	139	237	464
Total	**804**	**650**	**138**	**606**	**5**	**542**	**947**	**1,798**

*since December 2012

No pension commitments have been made 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 re-designed and resolved by the annual general meeting of 17 July 2011, 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. The new compensation system applies retroactively as of 1 January 2011. To the extent that compensation was paid already for the year 2011 on the basis of the resolutions of the annual general meetings 2006 and 2009, it will be applied to the new compensation claim.

a) Non-success-dependent compensation Compensation of EUR 30,000 was paid to the members of the Supervisory Board for their work in financial year 2011. The compensation granted to the Chairman of the Supervisory Board is two and a half times higher, and that granted to the Vice Chairman and the Chairman of the Personnel Committee is one and a half times higher, and that granted to the Chairman of the Audit Committee is two times higher than the compensation granted to the other members of the Supervisory Board. Every member of the Supervisory Board receives EUR 1,000 for attending each meeting of the Supervisory Board and its committees. As ancillary benefits, the company provides insurance protection to the members of the Supervisory Board and provides technical support to the Chairman of the Supervisory Board to an appropriate extent, so that he can exercise his duties as the Supervisory Board Chairman.

b) Success-dependent compensation The members of the Supervisory Board also receive compensation geared to the long-term success of the company. This compensation is calculated with reference to the average earnings per share, based on the consolidated financial statements of the last three financial years, respectively („average earnings per share"), if that figure is positive. For every financial year, each member of the Supervisory Board receives a bonus of EUR 32.00 for every full 1.00 euro cent of the average earnings per share. The Chairman receives two and a half times and the Vice Chairman receives one and a half times that amount.

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 2011 amounted to EUR 389 thousand (PY: EUR 261 thousand). The itemised compensation granted to individual members of the Supervisory Board is presented below (net figures, excluding value-added tax):

	Non-success-dependent (incl. ancillary benefits) T €		Success-dependent components (incl. performance bonus) T €		Components with a long-term incentive effect T €		Total T €	
	2011	2010	2011	2010	2011	2010	2011	2010
J. Michael Fischl	91	28	15	63	0	0	106	91
Prof. Dr. Klaus Höfle	38	20	5	21	0	0	43	41
Dr. Patrick Schweisthal	57	17	8	27	0	0	65	44
Prof. Dr. Thomas Zinser	71	18	10	21	0	0	81	39
Oliver Gosemann	45	12	5	12	0	0	50	24
Dr. Torsten Hass	39	10	5	12	0	0	44	22
Total	**341**	**105**	**48**	**156**	**0**	**0**	**389**	**261**

1.1.5 IMPORTANT PRODUCTS, SERVICES AND BUSINESS PROCESSES

The Phoenix Solar Group offers a broad-based, innovative product portfolio for photovoltaic plants of all sizes. Therefore, we can accommodate the needs of different customers in a flexible, individualized 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 that are 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. To that end, we examine the entire market, so that we can always offer our customers optimal solutions. For example, Phoenix Solar AG was convinced at an early stage that thin-film technologies in particular would play an increasingly important role in the market. As a result, Phoenix Solar became one of the leading users of thin-film modules within only a few years. As a result of the market developments in the past financial year, however, the use of thin-film modules is no longer associated with cost advantages because crystalline modules have become less expensive by comparison.

By reason of the fact that Phoenix Solar is a manufacturer-independent photovoltaic systems supplier, research and development is not one of the core functions of our company. Nonetheless, Phoenix Solar focuses on achieving cost reductions in all stages of the value chain, from photovoltaic modules, inverters, mounting systems and other system components to the operation of power plants. We achieve such cost reductions through intensive exchanges with manufacturers and through in-house developments.

For example, we presented our newly developed flat-roof mounting system, Phoenix TectoFlat, to the public for the first time at the “Intersolar” trade fair, which was held in Munich in early June 2011. Among the most useful features of this innovative system is the high degree of variability, making it possible to use not only all common framed solar modules, but also the frameless modules of the manufacturers First Solar and MiaSolé. In addition, we can optimise the material inputs in such a way that Phoenix TectoFlat is up to 50 percent less expensive than comparable solutions.

After presenting it to the public in 2010, we successfully introduced to market and continually further developed our slanted-roof system TectoSun 3 in 2011. This system offers the advantages of simplified mounting, thanks to prefabricated components, as well as a standardised tool set and lower material costs. Other attractive features of the TectoSun 3 roof-top mounting system include high-quality aluminium and stainless steel components and an attractive price.

The development of inverters in the second half of 2011 was heavily influenced by the called “Low-Voltage Directive,” which took effect on 1 January 2012. The purpose of this directive is to improve the stability of the power grid in the presence of wide voltage fluctuations. Therefore, inverters must now perform functions that contribute to ensuring grid stability. In preparation for the new directive, all our inverter suppliers modified their portfolios to ensure that they meet the new requirements. These steps were verified by Phoenix Solar AG by means of renewed quality inspections.

1.1.6 KEY SALES MARKETS AND COMPETITIVE ADVANTAGES

Through its operating subsidiaries, Phoenix Solar AG currently operates on three continents. In Europe, it operates in France, Italy, Spain, Greece, the Czech Republic and Bulgaria, in addition to the home market of Germany. Through its subsidiary in Singapore, Phoenix Solar has served and coordinated the growth regions of Southeast Asia, including India, the Philippines and Thailand, for example, for the last six years. In order to capture an even greater share of the dynamic growth of this region, Phoenix Solar established a new subsidiary in Malaysia in 2010. In addition, the company is constantly evaluating cooperation possibilities with nationally established project development companies. It recently entered into such a cooperation agreement in Turkey.

Through a new subsidiary formed in Oman in 2009, Phoenix Solar is also active in the growing solar markets of the Persian Gulf region. And it has served the U.S. market through its subsidiary in San Ramon, California since 2010.

Phoenix Solar AG withdrew from the Australian market in 2011 because up to 70 percent of the total market volume in that country will be concentrated in the segment of private homes in the medium-term future, according to forecasts of the industry analysts of Solarbuzz. Establishing a foothold in this market segment would have necessitated very high costs, leaving very little chance for profitability, in the judgment of Phoenix Solar. The Australian subsidiary was closed in the first quarter of 2012.

The Phoenix Solar Group has many years of experience in the photovoltaic systems business. Therefore, it is thoroughly familiar with market conditions and is firmly rooted in the market. In every one of its markets, the Group collaborates on site with local sub-contractors, which are chosen on the basis of Group-wide quality standards. The modules and inverters of our suppliers are also subjected to stringent quality inspections. Furthermore, our 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 registered utility models. To support the extensive planning and consulting services offered by the Group, Phoenix Solar has also developed its own planning software to plan, manage and monitor these processes.

The Phoenix Solar Group was not able to maintain its position in the face of intense international competition in financial year 2011. According to a market analysis conducted by IHS iSuppli, Phoenix Solar slipped three places in the photovoltaic power plant rankings since 2010, although it is still one of the top 10 companies in the industry. The Group's worldwide market share fell to 1.0 percent, reflecting a decrease of 0.8 percentage points from the prior year. The decline in the international rankings can be attributed to the fact, among others, that global industry growth is increasingly concentrated in more and more regional markets, including markets in which Phoenix Solar does not operate, or only to a very limited extent.

However, Phoenix Solar actually improved its competitive position in some markets in which it operated in 2011. In France, for example, we increased our market share substantially, by 2.6 percentage points to 4 percent, and we increased our market share in Greece by 0.7 percentage points to 2.7 percent in 2011.

On the other hand, the Group's market share and competitive position worsened appreciably in Germany, Italy and Spain. The Group's market share in Germany contracted by 1.1 percentage points to 1.8 percent, in Italy by 1.5 percentage points to 0.2 percent and in Spain by 3.5 percentage points to 0.5 percent.

Phoenix Solar's entry into the fiercely contested, dynamic U.S. market was rewarded with some very promising developments in 2011. Our subsidiary in this country acquired a key strategic partner and executed initial projects and is currently conducting contract negotiations for additional projects. Also in the Asia-Pacific region, Phoenix Solar positioned itself successfully, having realised projects totalling about 18 MWp in Thailand, India, Malaysia and the Philippines in 2011.

1.2 MANAGEMENT, GOALS AND STRATEGY

1.2.1 INTERNAL MANAGEMENT SYSTEM

We employ an integrated Management Information System (MIS) for the purpose of managing, overseeing and monitoring our construction projects and trading business. The MIS consists of the modules Statement of Financial Position, Income Statement, Cash Flow Statement and Segment Report (sub-

divided into Components & Systems, Power Plants and Operation & Maintenance). On the level of the subsidiaries, both revenues and cost structure are reported on a segment basis every month. The key indicators applied to manage the Phoenix Solar Group are revenues, earnings before interest and taxes (EBIT) and the EBIT margin.

In 2011, Phoenix Solar began to develop key indicators for managing its important processes. Special priority has been given to the core processes of Power Plant Project Planning and Execution, Procurement, Order Execution for Components & Systems and Finance. Concurrently with these efforts, we introduced our new ERP (Enterprise Resource Planning) system, which will provide the basic data required for process management, in the summer of 2011.

By means of a multi-year "Strategic Dialogue," we identify market opportunities in our key regions, which form the basis, in turn, for expanding our market position. After coordination with the managers in charge of the national subsidiaries and operating segments, we product sub-plans, which are then condensed into a preliminary Group plan for the year. On that basis, the managers in charge of the national subsidiaries and operating segments develop an annual budget that is supported by all participants, in a process of partially multi-level coordination discussions. The Executive Board is intensively involved in this process. In the final step, the budget is presented to the Supervisory Board for approval.

Business developments are monitored and budget-actual variances are documented in meetings held at least every month between the operating departments, national subsidiaries and where applicable, the company official in charge of risk management. Depending on the amount and significance of budget-actual variances, the Executive Board is promptly informed of such variances and then decides on the further course of action and appropriate measures. Thus, the originally planned growth course was revised in the autumn of 2011, as a result of the prevailing market uncertainties in 2011 and the unpredictability of further developments. In connection with that revision, originally planned measures related to the growth strategy were stopped. In addition, a hiring freeze was imposed and cost reduction and structural adjustment measures, as well as stricter approval routines, were introduced. The full-year targets had to be adjusted to reflect the negative course of business. However, the changes affecting the industry were so profound that it was hardly possible to offset their effects.

In accordance with Section 91 (2) AktG, the Executive Board is obligated to install a Groupwide system for the early detection of risks, in order to detect at an early stage any risks that could endanger the company's survival as a going concern. The company's early risk detection system was an audit priority in the fourth quarter of 2011. Based on the results of his audit, the auditor found that the management has taken suitable steps to set up an early risk detection system, as required by Section 91 (2) AktG, and that the system is appropriately designed to detect at an early stage any risks that would endanger the survival of the Phoenix Solar Group as a going concern.

1.2.2 STRATEGY

Strategically, the Phoenix Solar Group pursues the objective of continuously extending its position in Germany as a leading supplier of photovoltaic systems technology, one that is not bound to specific manufacturers. 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, through selective participation in new business models and through increased internationalisation.

In the years prior to 2011, Phoenix Solar AG generated very successful and profitable growth in its two segments Components & Systems and Power Plants. It also established a national and international pres-

ence and increasingly executed larger power plant projects. Accordingly, Phoenix Solar had anticipated continued moderate growth in 2011 and a significant market recovery in 2012. In line with those expectations, the company built up appropriate resources, including personnel and material inventories. These expectations did not materialise, however, because the solar power industry underwent a fundamental change, as excess capacities among module producers, in combination with the fact that the solar market basically stagnated all the way into the autumn of 2011, caused prices to fall by up to 40 percent over the course of the year. This price erosion resulted in lower revenues and gross profit margins throughout the solar industry's value chain, and necessitated substantial writedowns, in some cases, as a result of which many companies posted a net loss for 2011. What had still been a seller's market in 2010 became a buyer's market, starting in early 2011. Although the Executive Board of Phoenix Solar AG had anticipated these changes, it underestimated the extent of the price erosion, which led to considerable declines in the company's revenues and earnings. In view of these developments, the Executive Board resolved and implemented cost reduction measures already in the first half of 2011. As the situation deteriorated further in the course of the year and the company was not able to comply with the covenants stipulated by the lending banks in the third quarter, the Executive Board adopted a comprehensive restructuring program, which is currently being implemented. (For details, see Section 1.4.5 Financing and restructuring).

1.3 REPORT PURSUANT TO SECTION 315 (4) HGB

As of 31 December 2011, the share capital of Phoenix Solar AG amounted to EUR 7,372,700, unchanged from the prior year. 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, and one vote per share 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.

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, 16 June 2010 and 14 July 2011, 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 Conditional Capital 2010 and the Authorised Capital 2011. 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 in the stock market or by means of a public purchase offer to all shareholders, and to resell them under certain defined conditions. The treasury shares may not exceed ten percent of the company's share capital; the stated number of shares to be purchased decreases or increases the actual share capital accordingly. This authorisation remains in effect until 15 June 2015.

By resolution of the annual general meeting of 14 July 2011, the Authorised Capital 2010 was annulled and a new Authorised Capital 2011 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 3,686,350.00 through the issuance of up to 3,686,350 new bearer shares in exchange for cash or in-kind contributions on one or more occasions in the time until 13 July 2016 (Authorised Capital 2011). A subscription right must be granted to the shareholders, as a general rule. The new shares may also be purchased by one or more banks, subject to the obligation that they offer them to the shareholders for sale. 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.

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 and remains in effect until 1 July 2011, no stock options were exercised in financial year 2011. The total exercises of stock options in prior years have increased the number of shares outstanding by 18,000. 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 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 and renewed in July 2011 contain a clause 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"). A similar clause was agreed in connection with the new syndicated loan agreement concluded on 11 May 2012.

As of October 2008, the employment contracts of one Executive Board member contain change-of-control clauses with covenants governing the termination of his employment in the event of a change of control. 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 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 OVERVIEW OF BUSINESS DEVELOPMENTS IN 2011

1.4.1 GENERAL ECONOMIC CONDITIONS

By contrast to the prior year, the fundamental economic data worsened in nearly all countries and regions. The chief causes of this development included the sovereign debt crisis in the euro zone, the halting economic recovery in the United States and the slowing economic momentum in China.

Measured by the change in gross domestic product (GDP), economic growth in the euro zone slowed by 0.4 percentage points to 1.5 percent in 2011, based on preliminary figures. The economic situation of the individual euro zone countries was extremely mixed, however. According to preliminary calculations of the German Federal Statistical Office, booming exports and strong domestic demand fuelled growth of 2.9 percent in Germany, as compared to 3.7 percent in 2010. France actually experienced moderate economic growth estimated at 1.6 percent (PY: 1.5 percent), while Spain returned to positive, albeit weak growth, with a projected GDP expansion of 0.7 percent (PY: –0.1 percent).

By contrast to 2010, the economic situation of Italy and Greece, which are burdened by high government debt and structural deficiencies, took a considerably more negative turn in 2011. GDP growth in Italy fell by one percentage point to 0.5 percent and economic output in Greece contracted by another two percentage points to –5.5 percent.

GDP growth in the United is estimated to have slowed by 2.4 points to 1.6 percent in 2011, due to the weak state of the housing and job markets and high public debt on the federal, state and local levels.

Again in 2011, China, India and Brazil were the main drivers of global economic growth. According to estimates, China's GDP expanded by 10.3 percent, India's by 8.6 percent and Brazil's by 5.1 percent.

1.4.2 DEVELOPMENTS IN THE PHOTOVOLTAIC SECTOR

The photovoltaic industry was influenced in 2011 by the continued strong expansion of installed capacity, even as some market players were confronted with serious challenges. According to figures from the European photovoltaic industry association EPIA, global installed capacity of photovoltaic power plants rose by approximately 27.7 gigawatts (GWp) to a peak output of 67.4 GWp. That is remarkable development, considering the fact that subsidy conditions in most key markets – particularly Germany, Italy, France, Spain and the Czech Republic – either worsened or were fraught with considerable uncertainty. The principal factor stimulating the market was the extreme drop in prices for photovoltaic modules during the course of the year. Depending on the technology and country of origin, the price decline reached a magnitude of up to 42 percent, which generated strong demand, especially in the second half of the year. On the other hand, the tremendous price erosion was an impediment, and in some cases a major impediment, to the business performance of market participants.

As a further consequence of the sharp decline in prices, the goal of "grid parity" drew closer in some regions and customer segments. Grid parity means that the specific costs of generating photovoltaic electricity are significantly less than the costs to consumers of electricity generated from conventional energy sources. The approaching competitiveness of photovoltaic electricity will lead to considerable changes in customer behaviour, as well as the energy markets and infrastructures, in the foreseeable future. Therefore, preparations should be made already now to establish an appropriate political frame-

work. Some photovoltaic power plants in France and southern Europe already began to develop appropriate business and marketing models in 2011.

In Germany, the world's biggest photovoltaic market in the last few years, an important energy policy milestone was reached in 2011, as photovoltaic electricity accounted for 3.2 percent of the German electricity mix, surpassing the percentage of German electricity generated from hydroelectric power (3.1 percent), which had been the predominant renewable energy source for many decades, for the first time ever. Thus, photovoltaic electricity is the third-ranking renewable energy source for electricity generation, after wind power (7.6 percent) and biomass (5.2 percent). At 19.9 percent, the percentage of German electricity generated from all renewable energy sources combined exceeded the percentage of German electricity generated from nuclear power (17.7 percent) and from coal (18.7 percent), for the first time in 2011.

Sales market Germany

The German photovoltaic market expanded at a similarly strong rate in 2011 as in the prior year. Whereas new installed capacity of about 7.4 GWp was built in 2010, slightly more new installed capacity of around 7.5 GWp was built in 2011, according to figures from the German Federal Networks Agency. After a relatively restrained development in the first half of the year, plant registrations with the Federal Networks Agency were surprisingly high in December, at around 3 GWp.

After a subsidy reduction of 13 percentage points took effect at the beginning of the year, the German photovoltaic market was unexpectedly sluggish in the first half of 2011. For example, photovoltaic systems with a total capacity of only 700 megawatts (MWp) peak output were installed in the period from March to May, which had been applied as the forecast window for the planned subsidy reduction to take effect as of 1 July. As a result, the subsidy rates were not lowered further in mid-year. The amended version of the Renewable Energy Sources Act (EEG) was enacted in June and took effect as of 1 January 2012. Key elements of the amended EEG include the forward projection of the so-called "breathing lid," under which grid feed-in tariff reductions will take effect at the beginning and middle of every year, depending on the amount of new installed capacity, as well as the renewal of the self-consumption rule until 2013, the introduction of a market bonus model to promote the direct marketing of photovoltaic electricity and the introduction of grid feed-in management for certain photovoltaic plants.

Once the subsidy reduction that had been anticipated by many did not take effect in mid-year, the number of newly registered installed photovoltaic systems in Germany increased sharply and reached their highest level in December 2011. According to records of the Federal Networks Agency, total new installed capacity of 3.4 GWp was built in the period from January to the end of September (as compared to 5.5 GWp in 2010). Most of the new capacity pertained to photovoltaic systems with peak output of between 10 and 50 kilowatts (30 percent of total new capacity) and to photovoltaic systems with peak output of more than 1 MWp (24 percent of total new capacity). Market demand soared again in the fourth quarter, leading to temporary supply bottlenecks for the photovoltaic modules of some manufacturers.

Given the subdued demand in the first half of 2011, many market participants accumulated high inventories of photovoltaic systems, which had the effect of limiting new orders of photovoltaic systems during this period; in fact, some market participants did not place any new orders with manufacturers. The decline in prices for photovoltaic systems, which made many projects economical for the first time, and the decision not to reduce subsidy tariffs triggered unexpectedly high demand towards the end of the year.

The on-going debate concerning German solar power subsidies, both before and after the enactment of the amended EEG, was not helpful to the cause of continuous market development in Germany. Although the "breathing lid" that took effect in 2011 will have the effect in the medium-term future of limiting new installed capacity and the amount of the photovoltaic share of the EEG reallocation charge,

which is dependent on the level of new installed capacity, proposals for additional unscheduled subsidy reductions, as well as a fixed market lid (in the amount of 1 GWp, for example) and higher degression steps were repeatedly floated in the public debate. This uncertainty provoked pull-forward effects and triggered a disproportionately high level of new installed capacity in the fourth quarter, particularly for large-scale photovoltaic plants.

Due to the subdued market demand in the first half of 2011, Phoenix Solar too was unable to sell off the high level of inventories that existed already at the beginning of 2011, as planned. Therefore, the company decided to purchase hardly any new stock, starting in the third quarter, and to sell off the existing photovoltaic systems instead. Given the accelerating decline in prices, which reduced the company's earnings, the company assigned a high priority to this plan. At the same time as the company was successfully reducing its inventories through sales campaigns, the market began to recover in the second half of the year, but Phoenix Solar was only able to participate in that recovery to a limited extent. First, the current market prices were substantially lower than the procurement prices paid in the first half of the year; second, the market recovery was driven largely by the registration of large-scale photovoltaic plants. Phoenix Solar was not involved in many of these projects because it had increasingly pursued the strategy of making the company less dependent on the German market and advancing the internationalisation of its project business during the course of 2011. Thus, the company was not focused on the business in Germany and was therefore able to participate in the strong year-end rally in Germany only to a limited extent. In consideration of the on-going debate concerning the German Renewable Energy Sources Act, which creates uncertainty in the market, and the continuing erosion of market prices in Germany, the company will continue to pursue the internationalisation of its business systematically in the future. In particular, Phoenix Solar will focus on future fast-growing markets such as India, Thailand and the United States.

Sales market International

According to data of the European Photovoltaic Industry Association (EPIA), the top five worldwide markets, based on the total capacity of new photovoltaic plants connected to the power grid, were Italy (approx. 9 GWp), Germany (7.5 GWp), China (2 GWp), the United States (1.6 GWp) and France (1.5 GWp).

As in 2010, developments in the European photovoltaic markets were extremely mixed in 2011.

Although reliable figures on newly installed photovoltaic capacity in Italy are not yet available, photovoltaic plants with a total capacity of about 9 GWp were connected to the power grid in 2011, based on preliminary estimates of the industry association EPIA. However, a considerable number of these plants were installed already in 2010 and therefore qualified for the 2010 subsidy rates, assuming they are connected to the power grid by mid- 2011. Therefore, the analysts of IHS iSuppli estimate that the new installed photovoltaic capacity in 2011 actually amounted to about 7 GWp. In terms of photovoltaic plants connected to the power grid, therefore, Italy has risen to the status of the world's biggest photovoltaic market. Based on actually installed photovoltaic plants, Italy is the world's second biggest market, after Germany.

New installed capacity in Italy had amounted to only about 2.3 GWp in 2010. When the subsidy program Conto Energia III expired, the market initially collapsed, before managing an initially very hesitant recovery in early June, when the successor program Conto Energia IV took effect. The photovoltaic market actually boomed in the second half of 2011, particularly in the segments of commercial roof-top systems and investor-financed large-scale solar field systems. However, the booming market triggered a debate concerning the continuation of photovoltaic subsidies, just as it did earlier in the countries of Spain, Germany, the Czech Republic and Great Britain, so that the future of the Italian subsidy program is subject to certain risks. Starting in the second half of 2012, for instance, no more large-scale photovoltaic plants will be subsidised and therefore cannot be financed.

In France, slow but steady market growth commenced after the expiration of the three-month moratorium on subsidies, when a new photovoltaic subsidy law took effect in March. New installed capacity of about 1.5 GWp was built in that country by the end of 2011. In that respect, however, it should be noted that most of the new installed capacity resulted from delayed permits for plants for which subsidies had been requested before the end of 2010.

The markets in Spain and Greece were hampered by bureaucratic hurdles and financing bottlenecks for photovoltaic plants in the medium-to-high system capacity range, which made for difficult market conditions. Nonetheless, the photovoltaic market in Greece experienced considerable growth, based on estimated new installed capacity of 400 MWp. Because photovoltaic subsidies in Spain were capped at 500 MWp, the Spanish market stagnated on roughly the level of the prior year, with new installed capacity estimated to be 400 MWp.

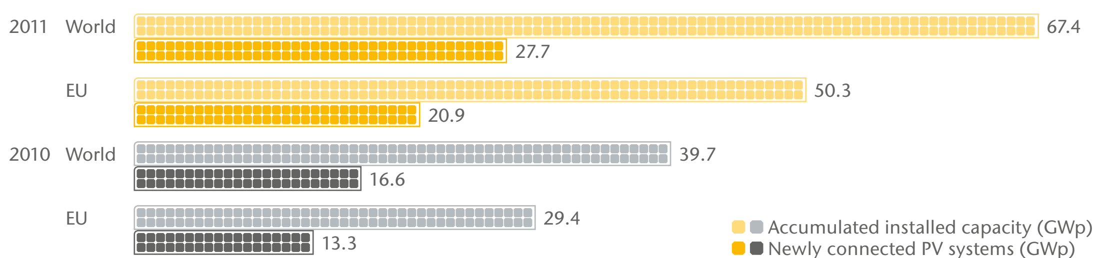
After booming in prior years, the photovoltaic market of the Czech Republic virtually collapsed in 2011. This development had been triggered by the drastic subsidy reductions that took effect already in 2010, as a result of which new installed capacity in 2011 is estimated to have only been 100 to 150 MWp, as compared to the nearly 1.5 GWp installed in 2010.

The United States rose to the status of the world’s fourth-largest photovoltaic market in 2011, after Germany, Italy and China. New installed capacity in 2011 is estimated to have been around 1.85 GWp. The growth of the U.S. market was driven by a fundamentally positive environment for renewable energies in some states and by pull-forward effects associated with the expiration at the end of 2011 of the cash grant introduced in early 2010 as an alternative form of the Investment Tax Credit (ITC), which will remain in effect until 2016. Because the U.S. subsidiary of Phoenix Solar AG was still becoming established in 2011, as the first year of its existence, it could not fully benefit from the market growth. Nonetheless, it acquired its first orders and has accumulated a valid project pipeline in the multi-megawatt range.

In China, the introduction of a nationwide grid feed-in tariff in July set off extremely dynamic growth in the photovoltaic market. Based on preliminary estimates, new installed capacity of around 2 GWp was built in 2011. However, the Chinese market is extremely closed, making it nearly impossible for foreign countries to establish a foothold there. For that reason, Phoenix Solar AG is not currently planning to become involved in the Chinese market.

Also in Malaysia, new feed-in tariffs were introduced in 2011; moreover, the registration period for claiming the new subsidies began already in December 2010. The new installed capacity cap of 144 MWp that had been established for the period from 2012 to 2014 was reached already shortly after the beginning of the registration period, so that the Malaysian government is considering raising this cap.

Global Photovoltaic Market (Source: EPIA)



1.4.3 PROCUREMENT MARKET

Amid a generally difficult market environment, the procurement side of our business was again characterised by substantial price erosion for photovoltaic modules in 2011, which affected not only thin-film and crystalline modules, but also the production stages of polysilicon, ingots, wafers, cells and complete systems. On the other hand, the prices of inverters remained largely stable over the course of the year, although it should be noted that the technology was adapted to suit the requirements of the new Low-Voltage Directive.

The main factor contributing to the sharp decline in module prices was the persistent supply surplus, which posed great challenges to the entire industry and accelerated the process of consolidation. Global manufacturing capacity is estimated to have been 40 to 50 GWp, as compared to worldwide module demand of only about 28 GWp (EPIA Market Report). That translates to surplus production of about 20 to 40 percent, assuming median utilisation of manufacturing capacity. As in 2010, the leading manufacturers continued to expand their manufacturing capacities in order to benefit from economies of scale. At the same time, new, primarily Chinese manufacturers continued to press into the market with low-cost offers, which depressed the level of prices even further.

As a result of the extreme price erosion, most module manufacturers were forced to sell their products below cost. Furthermore, many highly indebted manufacturers were confronted with tremendous financing problems due to the European and U.S. debt crisis, which led to closures of manufacturing plants and in some cases even bankruptcies.

Confronted with the same problem, the Phoenix Solar Group carried the highest value of inventories in the company's history (about EUR 150 million) at the end of financial year 2010, due to project delays and the early onset of winter in the core market of Germany. Because these inventories could not be sold off as originally planned, due to weak demand, particularly in the first half of 2011, the company was forced to charge extensive value adjustments in order to continue selling its products at competitive market prices.

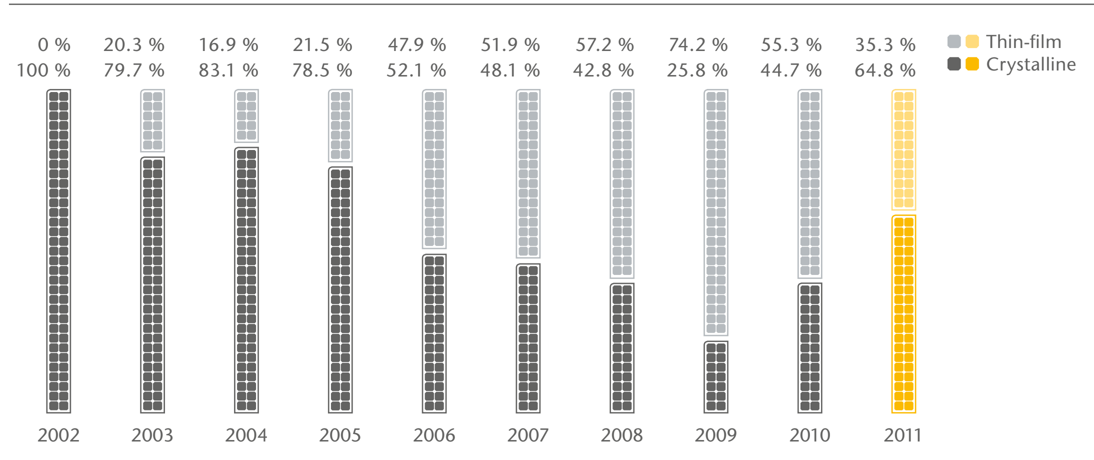
Thanks to the company's beneficial and long-established contacts with suppliers, however, it managed to obtain compensation payments from some suppliers, thereby offsetting at least a portion of the devaluation costs. In addition, the company conducted intensive negotiations with suppliers on the subject of payment terms and purchasing quantities, so that the company's inventories returned to the planned level at the end of financial year 2011. Furthermore, the company initiated a process to reduce the size and sharpen the focus of the entire group of suppliers; and it will continue to pursue this objective in the current financial year.

As in prior years, the procurement strategy of the Phoenix Solar Group was basically geared to the goal of keeping a generally balanced product portfolio in stock, so as to offer a selected range of different module technologies. As a manufacturer-independent system supplier, our portfolio is entirely designed to meet the needs of our customers, so that we can always offer them the latest technologies. Because most of these individual products can be used in both the Power Plants segment and the Components & Systems segment, this strategic approach yields synergistic benefits for both operating segments, such as better prices due to bundled procurement volumes, for example.

With regard to module procurement, Phoenix Solar disposed of a geographically balanced supplier mix in 2011, including strong European manufacturers and Asian producers (primarily from China and Malaysia), as well as two U.S. thin-film manufacturers. With regard to components, we work with most of the well-known producers of inverters.

The dynamic development of the Group's module product mix over the last few years is presented in the graph below. It reveals the degree to which the Phoenix Group has successfully modified its product mix to suit changing market preferences over the years.

Product Mix of Phoenix Solar



1.4.4 COMPARISON OF FORECAST WITH ACTUAL BUSINESS PERFORMANCE IN 2011

At the time of publishing the Annual Report 2010 on 18 April 2011, the Executive Board of Phoenix Solar AG had forecast flat to slightly higher revenues for the year 2011. This forecast was revised in connection with the semi-annual report published on 8 August 2011. Based on an expectation that was supported by experts, that the market would experience a significant recovery starting in September 2011, the Executive Board anticipated at that time that consolidated revenues for the full year 2011 would be on the same level or slightly less than the consolidated revenues for 2010. Given the persistent uncertainties affecting the market, the Group did not offer a concrete EBIT forecast at that time.

Despite the market recovery, the worldwide trend of falling prices for solar modules and photovoltaic systems continued. In view of these unexpectedly adverse operating conditions, Phoenix Solar lowered its revenue forecast for the full year 2011 to somewhere between EUR 350 und EUR 400 million, in an ad-hoc announcement published on 11 October 2011. The company also announced that it was anticipating a negative EBIT of between EUR 42 and EUR 49 million for financial year 2011.

The profit performance of Phoenix Solar AG was particularly affected by the significantly adverse state of the photovoltaic industry. Starting in the first quarter of 2011, projects were repeatedly delayed, in expectation that prices would continue to fall and in consideration of the prevailing market uncertainties. Therefore, Phoenix Solar was not able to reduce the high level of inventories that existed already at the beginning of the year. The worsening price erosion throughout the year 2011 necessitated repeated inventory write-downs, so that products generally had to be sold below the procurement cost, which resulted in a negative gross profit. Phoenix Solar's dire situation was further exacerbated by the fact that some module manufacturers sold their products directly in the market, so as to reduce their surplus capacities.

All in all, Phoenix Solar was not able to offset the adverse effects of this extremely difficult market environment. The counter-measures implemented by the company did not yield the desired and necessary effects, either in the Components & Systems segment or in the Power Plants segment. Given the

increasingly precarious state of the industry, the measures initiated already in the first half of 2011 to optimise working capital proved to be inadequate. In the Components & Systems segment, the company initiated the sell-off of products that exhibited below-average inventory turnover rates and/or were at risk of depreciation. Although such sales generated cash inflows in the short term, they also had an adverse effect on the company's profit performance. In the Power Plants segment, project delays made it impossible for the company to generate sufficiently high revenues to maintain the product portfolio and capacity utilisation in the previously accustomed and planned quality. Furthermore, the planned revenues for 2011 proved to be too high amid this environment, which caused Phoenix Solar (like other market players) to accumulate overly high inventories. This trend was exacerbated further by purchasing obligations with suppliers.

Prices continued to fall in the second half of 2011. As a result, sales margins that had been calculated as positive at the time of submitting bids often turned negative within the six-week lead times from the manufacturers' countries. That trend, combined with the just-in-time call-off mentality in a market characterised by surplus capacities, made it necessary to charge write-downs on additional product inventories.

The loss of revenues and particularly also the loss of gross profit margins were offset by the initiated cost reduction measures only to a very limited extent. In addition to the hiring freeze and the limitation of expenditures imposed in the first half of the year, the company laid off employees for the first time in its history in the second half. In that respect, however, outright dismissals were avoided, and employment relationships were terminated in a socially responsible and amicable manner. On a short-term basis, the company's earnings were strained further by these measures, as the cost savings will have a positive effect on the company's cost structure only in financial year 2012.

1.4.5 SIGNIFICANT EVENTS IN FINANCIAL YEAR 2011

a) Decisive regulatory changes

Changes to the Renewable Energies Act (EEG) in Germany In Germany, a scheduled 13 percent reduction in the grid feed-in tariff for photovoltaic electricity under the EEG took effect on 1 January 2011. Depending on the plant's output and target segment, feed-in tariffs have since ranged from 21.11 to 28.74 euro cents per kilowatt-hour (ct/kWh). The subsidy reduction that had originally been planned for 1 July did not take effect because the corresponding addition to installed capacity did not occur within the forecast window (March to May 2011).

The proposed amendment of the EEG that had already been discussed in the first quarter of 2011, which will take effect as of 1 January 2012, was enacted in June. Besides updating the mechanism of basic degression and the system of premiums or discounts to feed-in tariffs, depending on the amount of newly installed capacity, the amended version of the law also renewed the self-consumption provision until the end of 2013. In addition, the new law requires that photovoltaic plants with a peak output of more than 100 kilowatts (kWp) install feed-in management systems, including remote operability and remote monitoring of the actual feed-in quantity of photovoltaic plants, so that they can be integrated better with the management of power grids. A simplified feed-in management system was prescribed for smaller-output photovoltaic systems.

Reform of photovoltaic subsidies in Italy On 5 May 2011, the Italian government enacted a reform of photovoltaic subsidies, to take effect as of 1 June 2011. Among the chief provisions of the new law are new installation quantities tied to an overall budget, the definition of new plant size categories and feed-in tariffs up to and including 2016, and compensation for plant components manufactured in Europe.

Since 1 June 2011, the generator bonuses for newly installed solar power plants are subject to a monthly compensation degression, which varies according to the plant size of roof-top systems and solar field systems. As of 2012, the compensation for electricity generation will be reduced on a semi-annual basis.

Compensation for electricity fed into the power grid or self-consumed will still be possible. As of 2013, the electricity will either have to be fed into the power grid in the full amount or a proportion of the electricity can be consumed, in which case the plant owner will only collect the generator bonus.

Due to the lower subsidy funds for large-scale plants, a limitation of new installed capacity was incorporated into the new law for the first time. Thus, even solar-field plants with a peak output equal to or greater than 200 kWp are deemed to be large-scale plants, while the limit for roof-top systems was set at 1 MWp. The compensation volume for this plant category was set at EUR 500 million through the end of 2012. For the subsequent period through 2016, another EUR 1,331 million has been put aside for all plant sizes. Under the new law, the transition period for connecting plants under construction in accordance with the new provisions ended on 31 August 2011.

Legislative changes in France In France, a three-month moratorium on the approval of plants with an output of more than 3 kWp was imposed at the end of 2010 and remained in effect until the beginning of March. On 10 March 2011, a new law entered into effect, which aims to limit new installed photovoltaic capacity to 500 MWp for the full year 2011. Including the completion of plants that are already in progress and plants that have already been approved, however, the market volume could amount to 1 to 1.2 GWp per year in the years 2011 and 2012. In addition to other changes, feed-in tariffs for photovoltaic plants with a system output of less than 100 kWp were lowered by 20 percentage points. Furthermore, the new law requires public tenders in the future for plants with a system output of more than 100 kWp. Details concerning the procedure to be followed are still unclear, however. Self-consumed photovoltaic electricity is still not subsidized in France.

Other regulatory changes in Financial Year 2011 In Great Britain, a new photovoltaic tariff system entailing substantial subsidy reductions, especially for large solar field plants, took effect as of 1 August 2011. The primary objective of the new tariff system is to concentrate on subsidizing small-scale photovoltaic power plants.

Subsidy conditions were also revised in Bulgaria. Feed-in tariffs were reduced by up to 30 percent, the duration of subsidies was shortened from 25 to 20 years and subsidy tariffs are to be revised every year in the future.

Positive signals emanated from the U.S. market. In April, the Governor of California signed a law that raises the “Renewables Portfolio Standard.” The new law aims to increase the proportion of renewable energies to 33 percent by the year 2020. This target requires utility companies to achieve the prescribed percentage of renewable energy forms in their electricity mix. In addition, the U.S. Department of Energy issued guarantees for loans totalling US$4.5 billion to finance three large photovoltaic power projects.

b) Large-scale projects in 2011

Construction of a solar power plant in France with a peak output of 12 MW On 13 April 2011, Phoenix Solar announced the signing of a contract for the turnkey construction of a solar power farm in Le Castellet, France. This solar power plant, the construction of which was completed in late August 2011, has a peak output of 12 MWp.

First order from Thailand On 14 June 2011, our subsidiary Phoenix Solar Pte Ltd, Singapore, signed a contract for the delivery of two photovoltaic power plants in Thailand, thereby opening up a new market for the Phoenix Solar Group. In connection with this large-scale project, Phoenix Solar Singapore was responsible for planning the two plants, which will have a combined peak output of around 16 MWp. In addition, our subsidiary also supplied the necessary solar modules, inverters and cables. The solar farms, which together will be able to supply around 10,000 Thai households with environmentally friendly electricity, will be connected to the power grid of the local utility in the first quarter of 2012.

Biggest international order to date received in France On 19 July 2011, the Paris-based energy provider Akuo Energy contracted Phoenix Solar to build two solar power plants in France, as the general contractor. Each of these two solar farms has a peak output of 12 MWp and will generate about 36 million kilowatt-hours of environmentally friendly electricity per year. This project is the biggest international order ever placed with Phoenix Solar. Both solar power plants will be completed in early 2012.

Internationalization continues: contracts signed in India Having successfully entered the Thai market in mid-June, Phoenix Solar Pte Ltd, Singapore, signed two new contracts in India, a country with enormous market potential, on 29 July 2011. Our subsidiary was contracted to build two solar power plants, each with a peak output of 1 MWp, in the federal states of Tamil Nadu and Gujarat. Both projects were connected to the power grid at the end of 2011.

Project rights received for a solar farm in Bulgaria After a successful project development that had begun already in 2009, Phoenix Solar AG secured the project rights to a solar farm with a peak output of 50 MWp in Kazanlak, a town in the interior of Bulgaria, on 4 October 2011. To this end, Phoenix Solar acquired ten special-purpose companies and the project holding company. Because all necessary permits had been received to implement the project, construction work began in the fourth quarter. At the same time, Phoenix initiated sale negotiations with several prospective investors, but these negotiations were not yet completed at the end of 2011. Consequently, the project had to be written down in full at the reporting date.

c) Financing and Restructuring

On 1 July 2011, the syndicated loan agreement for EUR 150 million concluded in November 2008 was renewed ahead schedule until 30 November 2012. This loan agreement contains customary market covenants, which were breached as of 30 September 2011 by reason of the significant deterioration of the company's business performance and operating results. The short-term financing of Phoenix Solar AG was assured with the help of a waiver and a moratorium on the part of the lending banks. As a condition of the moratorium, Phoenix Solar agreed to commission a restructuring report, which was submitted to all financing partners in mid-December 2011. The restructuring report affirmed the viability of Phoenix Solar AG's business model. The restructuring concept presented in the restructuring report entails far-reaching changes in the organizational structure, processes and corporate governance mechanisms. It also entails some very substantial changes in the company's capacities and cost structures, without changing the Group's fundamental strategic direction, however. Finally, the restructuring concept also proposes focused measures for growth and internationalization. Right after the restructuring report was submitted, the Executive Board immediately commenced implementation of the restructuring concept and initiated negotiations to obtain new financing. The changes to the German Renewable Energy Sources Act (EEG) announced in late February 2012 will have serious effects on the German market, as well as the business plans adopted as part of the turnaround and restructuring concept. Therefore, the concept and the underlying plans were adjusted and presented again to the lending banks in mid-March. It was affirmed again that Phoenix Solar AG can be successfully reorganized, subject to the implementation of the updated restructuring concept. The updated restructuring program entails additional cost reductions, among other measures. The overriding goal has been and still is to identify the cost and capacity basis that is appropriate for the drastically lower amount of revenues, but still assures all necessary capabilities, particularly for the operating business in the Components & Systems segment and the project business. The appropriate cost basis is meant to rule out any significant risks for additional reduction measures, so that future revenue increases will have a correspondingly positive effect on the company's profitability. Furthermore, the company's structures, processes and capacities should be both highly efficient and flexible enough to effectively exploit opportunities in the solar market, including opportunities arising in connection with new business models, for example. Despite the current difficulties and turmoil in the market, we are firmly convinced that the solar market will return to a course of growth and present numerous attractive opportunities in the future.

The measures set out in the restructuring concept are already in an advanced stage of implementation, for the most part. The effects planned to date have been achieved or exceeded. The concurrently conducted negotiations aimed at obtaining new financing for the Group were brought to a successful conclusion with the signing of new financing agreements and notably a new syndicated loan agreement on 11 May 2012. In the meantime, the company's financing had been assured by means of moratorium agreements with the lending banks.

1.4.6 DEVELOPMENT OF THE PHOENIX SOLAR SHARE PRICE

Detailed information on the stock market environment, the development of the company's share price, the company's investor relations activities and key indicators and basic data on the share of Phoenix Solar AG can be found in the section entitled the "Phoenix SonnenAktie®" of the present Annual Report.

2 RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION

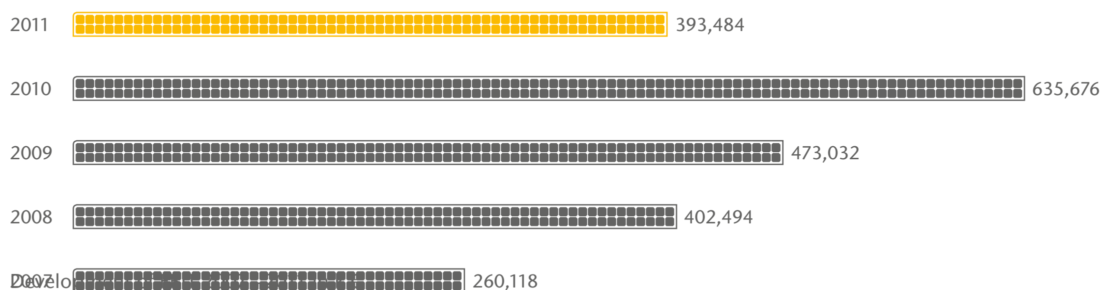
2.1 RESULT OF OPERATIONS

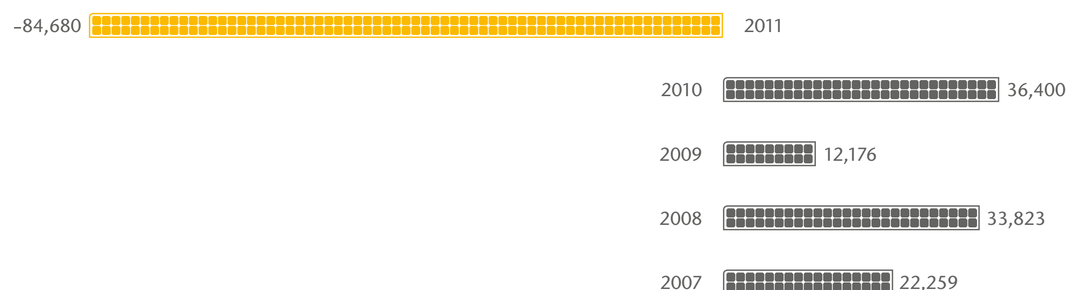
At the beginning of 2011, the photovoltaic industry encountered the dual threat of weak demand and price erosion for solar modules, which weighed heavily on the photovoltaic market throughout the year. As a result of these very difficult market conditions, Phoenix Solar issued a downward correction of its revenue and earnings forecast for financial 2011 on 11 October 2011 and promptly initiated additional measures to lower costs and optimise the business model.

To reduce the company's dependency on the difficult German market, Phoenix Solar continued to advance its international activities in financial year 2011. Although operating conditions are similarly difficult in the markets outside of Germany, Phoenix Solar was able to increase its international revenues substantially over the course of the year, which had the effect of mitigating, but not fully offsetting the steep decline in revenues generated in Germany. Furthermore, profit margins in the international business also contracted significantly, due to the worldwide drop in prices.

The trend of falling prices necessitated substantial inventory write-downs in financial year 2011, leading to a massive charge against earnings in the amount of approximately EUR 35.5 million. Although Phoenix Solar managed to offset some of this charge by obtaining compensation payments from suppliers in the total amount of EUR 7.2 million, the company generated negative earnings before interest and taxes (EBIT) of EUR –84.7 million, after an outstanding performance in 2010.

Development of Revenues 2007 – 2011 in k €





2.1.1 ANALYSIS OF REVENUES

At EUR 393.5 million, the revenues of Phoenix Solar AG in financial year 2011 were 38.1 percent less than the corresponding prior-year figure (2010: EUR 635.7 million). Domestic revenues declined by almost two-thirds year-on-year.

Development of Revenues by Segment and Region 2007 – 2011

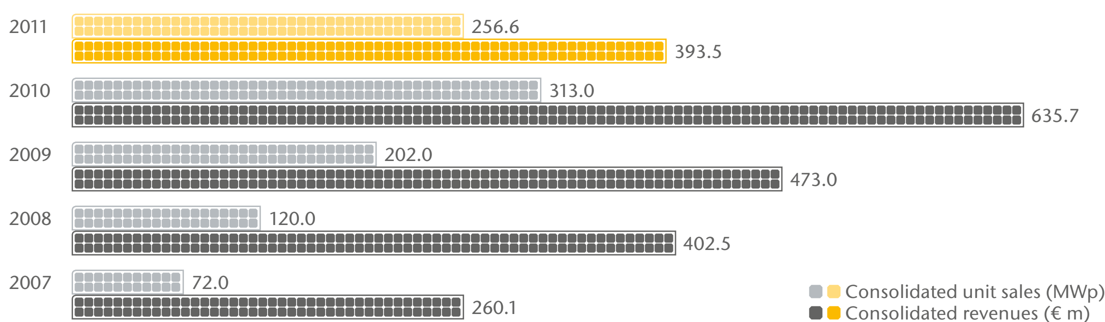
		2011	2010	2009	2008	2007
Consolidated revenues	€ m	393.5	635.7	473.0	402.5	260.1
Change from prior year	%	– 38.1	34.4	17.5	54.7	
C&S revenues	€ m	241.0	368.5	299.5	214.6	130.7
Change from prior year	%	– 34.6	23.2	39.3	64.2	
PP revenues	€ m	152.5	267.2	174.0	187.8	129.3
Change from prior year	%	– 42.9	53.6	– 7.3	45.2	
Other revenues	€ m	0.0	0.0	0.0	0.1	0.1
Domestic revenues	€ m	168.5	471.2	445.3	242.8	189.5
Change from prior year	%	– 64.2	5.8	83.4	28.1	
EU revenues, excl. Germany	€ m	187.9	162.3	22.8	157.6	70.4
Change from prior year	%	15.8	611.8	– 85.5	123.9	
RoW revenues	€ m	37.1	2.2	4.9	2.1	0.2
Change from prior year	%	1,586.4	– 55.1	133.3	950.0	

In the first half of 2011, the company's business performance was adversely affected by the very subdued market demand. Furthermore, the core markets of Germany and Italy in particular were affected by considerable uncertainties concerning future photovoltaic subsidies. In view of the sharply falling prices, investors expected prices to fall further and therefore delayed their investments. Due to the lower volume of unit sales coupled with lower average prices, the company generated revenues of only EUR 140.8 million in the first six months of 2011, which was about 61 percent less than the strong revenue figure for the first half of 2010 (EUR 364.0 million).

The surplus supply of solar modules and the associated price erosion continued in the second half of 2011. Nonetheless, the market recovery predicted by experts commenced in July. As a result, Phoenix Solar AG generated revenues of EUR 252.7 million in the second half of 2011 (July to December 2010: EUR 271.7 million), reflecting a decrease of only 7.0 percent from the corresponding figure for the second half of 2010.

A comparison of revenues and unit sales (in MWp) illustrates the price erosion on the selling side. Whereas the revenues of EUR 393.5 million generated in 2011 were 38.1 percent less than the corresponding prior-year figure (PY: EUR 635.7 million), the unit sales of 256.6 MWp were only 18.0 percent less than the corresponding prior-year figure (2010: 313.2 MWp).

Development of Revenues and Unit Sales 2007 – 2011



Broken down geographically, 42.8 percent (2010: 74.1 percent) of the Group's total revenues were generated in Germany and 57.2 percent (2010: 25.9 percent) were generated in the international markets. The Components & Systems segment contributed 61.2 percent (2010: 58.0 percent) and the Power Plants segment contributed 38.8 percent (2010: 42.0 percent) of the Group's total revenues.

2.1.2 EARNINGS

As a result of the substantial drop in prices for solar modules, Phoenix Solar AG was forced to charge massive write-downs on its inventories during the course of the year. Combined with the sharply lower revenues and narrower profit margins, these write-downs led to a negative gross operating profit in 2011. Consequently, the Group's EBIT fell to EUR –84.7 million (2010: EUR 36.4 million) and the consolidated profit after taxes fell to a net loss of EUR 86.4 million (2010: EUR 24.1 million).

The consolidated net loss resulted mainly from the following events in financial year 2011:

1. Write-downs charged during the year to allow for the loss-free valuation of inventories, in the total amount of EUR 35.5 million;
2. Devaluation of project rights due to changed legal and/or economic conditions, particularly in Italy, France and Bulgaria, in the total amount of EUR 5.2 million;
3. Write-downs of construction work already performed, in the amount of EUR 5.6 million, and accrued liabilities for anticipated firm purchasing obligations, in the amount of EUR 7 million, particularly for the "Kazanlak" project in Bulgaria;
4. Restructuring expenses of EUR 3 million, most of which were incurred in connection with the socially responsible reduction of the workforce and for consulting expenses related to the restructuring program;
5. Deferral of profit recognition on projects for which customer financing had not been concretised at the reporting date, making it necessary to recognise assets in the Power Plants segment without the corresponding proportional profits.

2.1.3 SITUATION OF ORDERS

As of the reporting date of 31 December 2011, total orders on hand amounted to EUR 119.4 million (31 December 2010: EUR 158.3 million), reflecting a decrease of EUR 38.9 million or 24.6 percent from the prior-year comparison figure. At EUR 14.0 million, the orders on hand of the Components & Systems segment were 40.2 percent less than the corresponding year-ago figure (31 December 2010: EUR 23.4 million). The orders on hand of the Power Plants segment, at EUR 105.5 million, were EUR 21.9 percent less than the prior-year figure (31 December 2010: EUR 134.9 million).

The total orders on hand reduced by the realised revenues as of 31 December 2011 (free orders on hand) of the Power Plants segment amounted to EUR 29.9 million, reflecting a decrease of nearly 57,2 percent from the prior-year figure (31 December 2010: EUR 19.0 million). The Group's total free orders on hand amounted to EUR 43.8 million, slightly higher than the prior-year figure (2010: EUR 42.4 million).

2.1.4 DEVELOPMENT OF KEY ITEMS OF THE INCOME STATEMENT

Changes in inventory The line item of changes in inventory in the amount of EUR 10.9 million (2010: EUR 0.2 million) reflects the increases or decreases in work in progress on orders.

Other operating income In financial year 2011, the other operating income of EUR 9.4 million (2010: EUR 4.8 million) consisted mainly of electricity income (EUR 3.1 million), income from the reversal of expensed obligations arising from project activities (EUR 2.8 million) and income from the reduction of general value adjustments (EUR 1.1 million).

Purchased goods and services/Gross profit At EUR 430.9 million, purchased goods and services in financial year 2011 were EUR 123.5 million less than the corresponding prior-year figure (PY: EUR 554.4 million). Because this decrease was considerably less than the EUR 242.2 million decline in revenues and the EUR 231.5 million decline in the total operating performance, the Group incurred a negative gross profit of EUR 26.6 million (2010: positive gross profit of EUR 81.5 million). This development was caused by two main factors. First, the rapid drop in prices, especially for solar modules, meant that the Group had to sell its products at a loss in many cases and the company had to constantly write down the value of the modules and components kept as inventory; second, changes in legal conditions and project development prospects during the year, particularly in Bulgaria and Italy, necessitated write-downs of project rights and project-specific start-up costs.

The considerably negative operating result includes the devaluation of project rights and assets under construction for the Bulgarian Kazanlak project, in the total amount of EUR 15.9 million. Although construction commenced in the fourth quarter, the project's financing was not assured, due to the quickly worsening problems affecting the company's general financing after the breach of covenants in the third quarter. Furthermore, the search for investors was unsuccessful and the project could not be sold by the end of the fourth quarter. Therefore, executing the project would have caused a heavy strain on liquidity, due to its size and the absence of financing, which would have, in turn, given rise to existential risks for the company. In consideration of these facts, the Executive Board made the decision in December to discontinue work on the project, despite the substantially adverse effects that would possibly have on the company's earnings, unless it would be possible to quickly find investors to take over the project. This decision was also part of the moratorium agreed with the lending banks in December as a bridge solution until new corporate financing could be negotiated. Because the investor concepts and negotiations were unsuccessful at the end of the year and beyond, the corresponding write-downs were charged as of 31 December 2011.

Personnel expenses On a Groupwide basis, Phoenix Solar had 414 employees (including the Executive Board and temporary workers), of whom 384 were permanent employees, as of 31 December 2011, reflecting an increase of 58 employees from the corresponding level at 31 December 2010. Due to the higher number of employees compared to the prior year, the personnel expenses of EUR 30.0 million in 2011 (2010: EUR 23.6 million) were 27.2 percent higher than the corresponding prior-year figure. Due to the fact that the Group's revenues were also lower in financial year 2011, the key performance indicator of revenues per full-time employee declined from EUR 1,995 thousand in 2010 to EUR 982 thousand in 2011.

The expansion of personnel capacities was meant to accommodate the long-term growth strategy of

Phoenix Solar AG. In reaction to the sharp drop in revenues and earnings, however, it was necessary in the second half of 2011 to prepare a restructuring concept for the parent company, which also entailed the company's first-ever workforce reductions. Therefore, the company recognised a provision for severance awards in the amount of EUR 1.4 million (2010: EUR 0.2 million).

Depreciation and amortisation The depreciation and amortisation of EUR 1.6 million were EUR 0.5 million higher than the corresponding prior-year figure (2010: EUR 1.1 million). This amount was charged in respect of intangible assets and property, plant and equipment. The increase resulted primarily from the capitalisation of the ERP system, which has been used by the parent company since 1 July 2011.

Other operating expenses At EUR 35.9 million, the other operating expenses incurred in financial year 2011 were EUR 10.6 million higher than the corresponding prior-year figure (2010: EUR 25.3 million).

Compared to 2010, the parent company incurred generally higher operating expenses, particularly in the area of legal and consulting expenses (+EUR 1.5 million), storage expenses (+EUR 0.9 million), IT expenses (+EUR 0.6 million), expenses for freelance employees (+EUR 0.4 million) and travel expenses (+EUR 0.6 million). Individual value adjustments were EUR 1.2 million higher and the general value adjustment was about EUR 0.3 million higher than the respective prior-year figures. In addition, the company recognised a provision for onerous contracts in the amount of EUR 0.8 million.

At approximately EUR 3.2 million, the outbound freight expenses of the parent company were generally on the level of the corresponding prior-year figure.

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 is attributable to the Phoenix Solar Group amounted to EUR 27.0 thousand in financial year 2011 (PY: EUR 58.1 thousand).

Earnings before interest and taxes (EBIT) The negative gross profit margin, combined with the heightened personnel expenses and other operating expenses, lead to a negative EBIT of EUR –84.7 million in financial year 2011 (2010: EUR 36.4 million). As a percentage of the Group's stated revenues, that corresponds to an EBIT margin of –20.9 percent (2010: 5.7 percent).

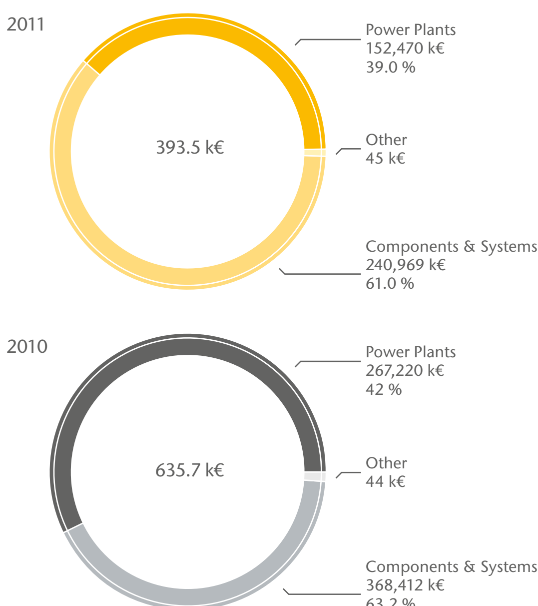
Financial result At EUR –4.2 million, the financial result in 2011 was EUR 1.9 million less than the corresponding prior-year figure (2010: EUR –2.3 million). Financial income amounted to EUR 0.4 million (2010: EUR 0.2 million) and financial expenses amounted to EUR 4.6 million (2010: EUR 2.5 million). Of the total financial expenses, an amount of EUR 2.8 million (2010: EUR 1.3 million) resulted from short-term liabilities.

Tax rate In the period from January to December 2011, the Group's tax rate, defined as the ratio of tax expenses to the consolidated profit before taxes, came to 2.8 percent (2010: 29.3 percent). The considerable decrease in the tax rate resulted mainly from the incorporation of tax audit findings and the decision initially not to recognise deferred tax assets in respect of tax losses amounting to EUR 26.4 million (2010: EUR 0 million). This decision was made in consideration of the fact that the Group is currently undergoing a restructuring phase, so that the new income tax plan must first prove to be reliable before deferred tax assets can be recognised on that basis.

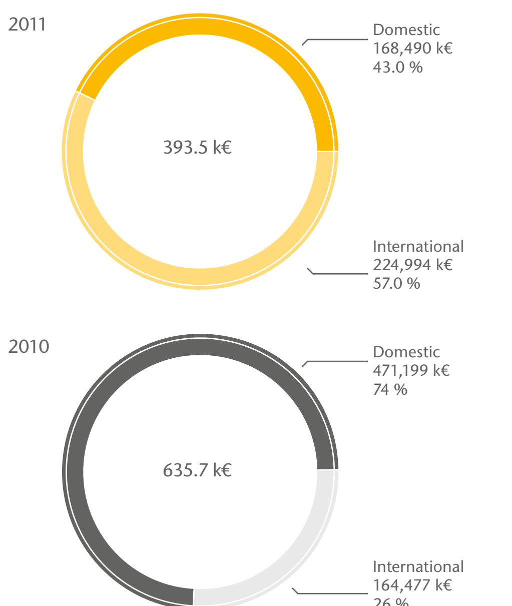
Consolidated profit/loss As a result of the developments described above, the Phoenix Solar Group incurred a consolidated net loss of EUR -86.4 million in financial year 2011 (2010: consolidated net profit of EUR 24.2 million). Based on the average 7.4 million shares outstanding, the basic earnings per share amounted to EUR -11.80 (2010: EUR 3.44). Because no material diluting factors were in effect as of 31 December 2011, the diluted earnings per share are only slightly different from the basic earnings per share.

2.1.5 DEVELOPMENT OF THE OPERATING SEGMENTS

Revenues by Segment

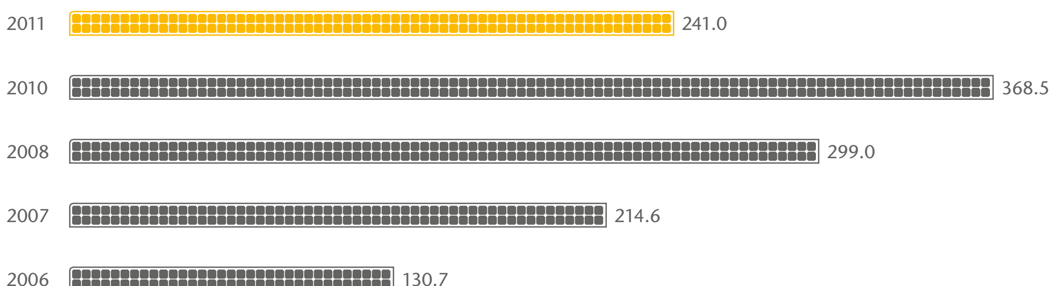


Revenues by Region

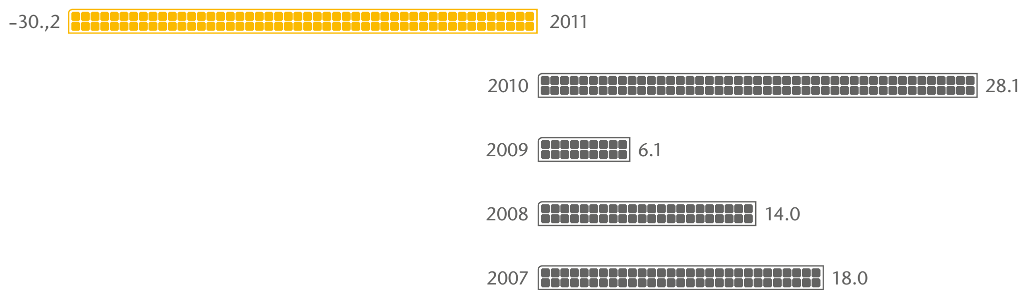


Components & Systems (domestic and international) Generally speaking, the performance of this Components & Systems segment in 2011 was heavily influenced by the massive supply surplus, which triggered a substantial drop in prices, both for photovoltaic modules and photovoltaic systems. The supply glut was exacerbated by rather subdued demand.

Components & Systems Revenues 2007 – 2011 in € m



Components & Systems EBIT 2007–2011 in € m



Amid a demanding market environment, the revenues of the Components & Systems segment fell by slightly more than one third to EUR 241.0 million in 2011 (2010: EUR 368.4 million). Germany accounted for EUR 154.3 million (2010: EUR 278.8 million) and the international markets accounted for EUR 86.7 million (2010: EUR 89.7 million) of the Group's total revenues.

The Components & Systems segment was particularly hard hit by the devaluation of inventories, which resulted in a negative EBIT for this segment. Due to the rapid price erosion, some products had to be sold below cost.

As of 31 December 2011, the orders on hand in the Components & Systems segment amounted to approximately EUR 14.0 million (31 December 2010: EUR 23.4 million), reflecting a decrease of 40.2 percent from the corresponding prior-year figure. Of that total, domestic orders accounted for EUR 1.3 million (31 December 2010: EUR 16.8 million) and orders from international markets accounted for EUR 12.7 million (31 December 2011: EUR 6.6 million).

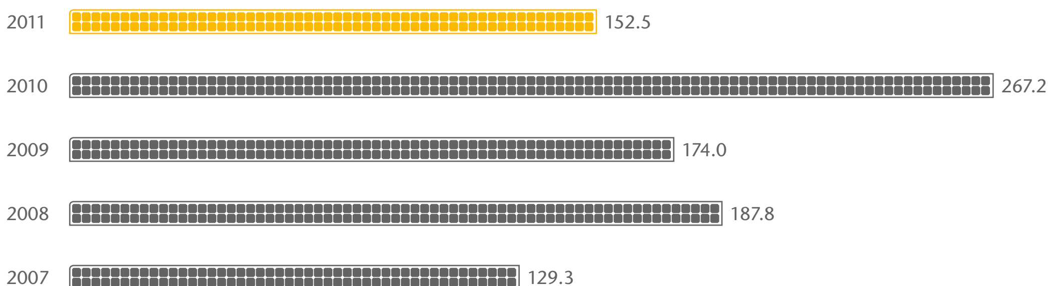
Power Plants (domestic and international) The performance of the Power Plants segment was influenced by considerable international activities in 2011. Besides executing two projects with a combined volume of 13.6 MWp in France, the company acquired two additional projects with a total volume of 24 MWp in financial year 2011. In the current financial year, therefore, Phoenix Solar has orders on hand in the French market of substantially more than EUR 100 million.

In Greece, the company's protracted project development activities finally met with success, as the first projects are ready for construction. Nonetheless, the possible repercussions of the Greek financial crisis must be monitored carefully.

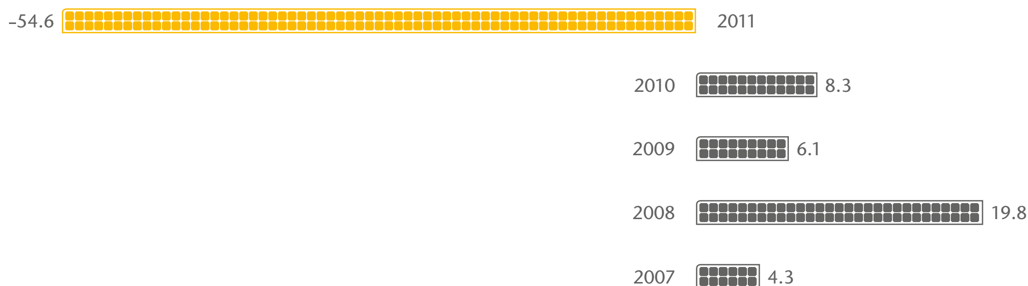
By contrast, the development of the Kazanlak project (in Bulgaria) was unsatisfactory. Despite the intervening successes, such as basic approval of the project, the successful acquisition of shares in the specific project companies and the expansion of the project volume from the originally planned 20 MWp to 50 MWp, Phoenix Solar was not able to find an investor for the project. On the contrary, it became increasingly apparent that it may not be possible to sell the project companies without taking further steps, given the prevailing legal uncertainties. Furthermore, the project financing was not assured, due to the rapidly worsening problems affecting the company's general financing after the loan covenants were breached in the third quarter. In consideration of these facts, the Executive Board made the decision in December to discontinue work on the project, despite the substantially adverse effects that would possibly have on the company's earnings. This decision was also part of the moratorium agreed with the lending banks in December as a bridge solution until new corporate financing could be negotiated. Because the investor concepts and negotiations were unsuccessful at the end of the year and beyond, the corresponding write-downs were charged as of 31 December 2011.

In non-European markets, the two projects executed in Thailand (totalling 15.9 MWp) and the project in Saudi Arabia (3.5 MWp) are especially worthy of mention. Furthermore, stepped-up project acquisition activities are currently being conducted in the United States, India and Saudi Arabia, besides other non-European markets.

Power Plants Revenues 2007 – 2011 in € m



Power Plants EBIT 2007 – 2011 in € m



At EUR 152.5 million, the revenues of the Power Plants segment in 2011 were 42.9 percent less than the corresponding prior-year figure (2010: EUR 267.2 million). Domestic projects accounted for EUR 14.2 million (2010: EUR 192.4 million) and international projects accounted for EUR 138.3 million (2010: EUR 74.8 million) of segment revenues. Due to the substantial price erosion, the Power Plants segment also failed to generate a positive profit contribution.

As of 31 December 2011, the orders on hand of the Power Plants segment (including orders in progress) amounted to EUR 105.4 million (31 December 2010: EUR 134.9 million). The orders on hand at year-end 2011 consisted exclusively of international orders, whereas the orders on hand at 31 December 2010 consisted of international orders in the amount of EUR 79.9 million and domestic orders in the amount of EUR 55.0 million.

2.2 CASH FLOWS

2.2.1 BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

Until mid-2011, the financial policy and financial management system of the Phoenix Solar Group were closely aligned with the Group's growth objectives. The Group's financing needs were supported by a syndicated loan agreement concluded in financial year 2008, which was renewed through November 2012 at the end of the second quarter of 2011. After the loan covenants were breached, in the wake of which moratoriums were agreed and renewed, the company's financing has been assured only on a short-term basis. During this time, restructuring concepts were developed and coordinated with the lending banks. At the same time, new financing was negotiated. During the period, the company's survival as a going concern was the overriding objective of financial management. Particular focus has been given to very close liquidity management and the rigorous implementation of liquidity-conserving and liquidity-generating measures. Such measures included the systematic sell-off of inventory stocks. During this period, generating liquidity took precedence over optimising earnings, in cases of doubt.

2.2.2 DEVELOPMENT OF CASH AND CASH EQUIVALENTS AND SHORT-TERM DEBT FINANCING

As of December 31, 2011, the cash and cash equivalents of the Phoenix Solar Group amounted to EUR 6.4 million, reflecting a moderate decrease of EUR 3.2 million from the corresponding prior-year figure (31 December 2010: EUR 9.6 million). At the same time, short-term financial liabilities were reduced by EUR 27.9 million to EUR 24.7 million (31 December 2010: EUR 52.6 million).

2.2.3 CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities amounted to EUR 29.8 million in 2011 (2010: EUR –84.5 million). The positive cash flow generated in spite of the negative earnings for the year resulted mainly from the reduction of inventories (change in inventories: +EUR 71.9 million). The cash inflow resulting from changes in receivables under long-term construction contracts (+EUR 67.2 million) more than offset the cash outflow resulting from changes in liabilities (EUR –58.3 million).

2.2.4 CASH FLOW FROM INVESTING ACTIVITIES

At EUR 2.8 million, the cash outflow for investing activities was nearly unchanged from the corresponding prior-year figure (2010: EUR 2.8 million). This figure is mainly composed of the customary purchases of plant and equipment. In addition, the Group made investments in intangible assets, including licenses and capitalisable production, for example, in the first half of 2011. The introduction of a new company-specific ERP (Enterprise Resource Planning) solution, which had been initiated in financial year 2009, was completed as of 1 July 2011, when the new software was placed into service.

2.2.5 CASH FLOW FROM FINANCING ACTIVITIES

The cash flow from financing activities led to a cash outflow of EUR 30.2 million in 2011 (2010: EUR 72.5 million). This figure is composed of the cash outflow resulting from the payment of a dividend to the shareholders of Phoenix Solar AG, in the amount of EUR 2.6 million, and the cash outflow for the repayment of financial liabilities, in the amount of EUR 27.9 million. This figure also contained interest income of EUR 0.3 million, as a cash inflow.

2.2.6 CAPITAL EXPENDITURES, DEPRECIATION AND AMORTISATION

Information on the changes in noncurrent assets is provided in Section D of the notes to the consolidated financial statements and in the consolidated Statement of Changes in Equity contained therein (see No. 15).

2.3 FINANCIAL POSITION

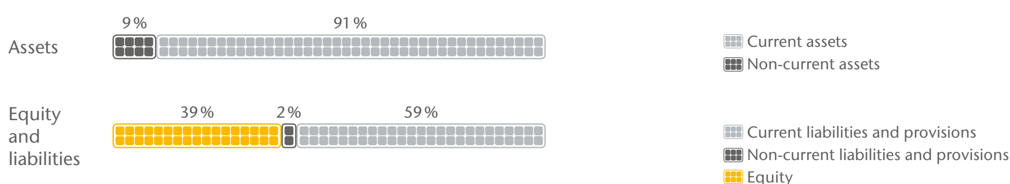
Financial Position in € m

	31/12/2011	31/12/2010
Assets	**143.9**	**313.9**
Non-current assets	12.3	313.9
thereof deferred tax assets	2.2	1.8
Current assets	131.6	302.4
thereof inventories	55.9	149.5
thereof receivables under long-term construction contracts	15.0	82.2
Equity and liabilities	**143.9**	**313.3**
Equity	54.8	142.4
Non-current liabilities and provisions	2.5	5.3
thereof deferred tax liabilities	0.0	3.1
Current liabilities and provisions	86.6	165.5
thereof trade payables	24.5	84.5
thereof current financial liabilities	24.7	52.6

2.3.1 STRUCTURE OF ASSETS AND CAPITAL

As of 31 December 2011, the total assets of the Phoenix Solar Group amounted to EUR 143.9 million, less than half the corresponding figure at year-end 2010 (31 December 2010: EUR 313.3 million).

Balance Sheet Structure 2011



On the assets side, this decrease resulted mainly from the lower amount of receivables under long-term construction contracts, which declined by EUR 67.2 million to EUR 15.0 million in financial year 2011 (31 December 2010: EUR 82.2 million), and from the lower amount of inventories, which declined by EUR 93.6 million to EUR 55.9 million (31 December 2010: EUR 149.5 million); EUR 35.5 million of the total decrease resulted from write-downs charged against inventories during the year.

In order to avoid such high inventory write-downs as much as possible in the future and to hold inventories on a level commensurate with on-going activities, Phoenix Solar AG adapted its procurement policy to reflect the changed operating conditions. The company also initiated a process of streamlining and focusing the entire base of suppliers and it continues to pursue this process also in the current financial year. Supplementary intensive negotiations with suppliers on the subject of payment terms and purchasing quantities yielded positive results already at the end of financial year 2011.

At EUR 54.8 million, the company's equity was EUR 87.6 million less than the corresponding prior-year figure (31 December 2010: EUR 142.4 million), mainly as a result of the consolidated net loss. Despite this decrease, the equity ratio came to 38.1 percent (31 December 2010: 45.5 percent), due to the fact that total assets were cut in half.

At EUR 89.1 million, debt capital was EUR 81.8 million less than the corresponding prior-year figure (31 December 2010: EUR 170.9 million), mainly due to the fact that trade payables were reduced by EUR 60.0 million to EUR 24.5 million (31 December 2010: EUR 84.5 million) and current financial liabilities were reduced by EUR 27.9 million to EUR 24.7 million (31 December 2010: EUR 52.6 million).

Please refer to the notes to the consolidated financial statements for detailed information on individual line items.

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

Some assets of the Group, primarily consisting of certain leased items under operating leases, are not presented in the statement of financial position. Additional information on this subject can be found in Section (38).

2.3.3 NOTES ON COMPANY ACQUISITIONS

No companies that have a material effect on the Group's financial position, cash flows or results of operations were acquired in financial year 2011. The companies acquired in financial year 2011 consisted entirely of project companies.

3 EMPLOYEES

Given the increasingly complex and extremely dynamic market environment in which the company operates, the fair and appreciative treatment of our employees is a very important principle of our company. Even in phases characterised by reorganisation and workforce reduction, we engage in open communications and transparent actions.

Due to the unsatisfactory development of the markets in which the company operates, Phoenix Solar made the decision in the second half of 2011 to reduce the company's workforce substantially in Germany, for the first time ever. We are striving to conduct this process in the most transparent and fairest way possible. Therefore, we decided to offer annulment agreements as a means of avoiding outright lay-offs.

As of 31 December 2011, the Phoenix Solar Group had a total of 409 employees (excluding freelance employees, Executive Board members and temporary workers, but including casual labourers); about 10 percent of those employees left the company between the end of 2011 and the beginning of 2012 as part of the restructuring plan. A further 35 - 40 percent of our employees will leave the company in the first half of 2012 as part of the restructuring plan.

Phoenix Solar continued to pursue the internationalisation of its business in 2011 by increasingly recruiting employees in the international markets and delegating the first employees from Germany to international locations. In December 2011, 83 persons were employed in Phoenix Solar's international subsidiaries. This trend will continue in the current financial year, so that the ratio of employees working in the international subsidiaries to employees working in Germany will increase considerably.

3.1 VOCATIONAL TRAINING AND CONTINUING EDUCATION

Forward-looking personnel planning based on both quantitative and qualitative criteria is highly important, even in difficult times. For this reason, we opted not to reduce the number of vocational trainees in 2011 and so we provided vocational training to nine young people in five different occupational tracks, as in the prior year. And once again, we offered permanent positions to 100 percent of those young people upon the completion of their respective vocational training programs. In addition, we offered internships and master's degree student positions and participated in several university job fairs and career affairs, especially in the first half of 2011.

Besides providing vocational training to young people, Phoenix Solar places a high priority to the career development and continuing education of its employees. Thus, our employees are given the opportunity to develop their professional and personal potential further by engaging in challenging activities. To assist them in such endeavours, we offer a wide variety of internal and external training courses to our employees. Furthermore, they are mentored by experienced colleagues in their day-to-day work.

3.2 CORPORATE CULTURE AND PERSONNEL STRATEGY

The corporate culture of Phoenix Solar is rooted in the dedication of every employee, the style of personal interaction with each other and the diversity of our employees. In 2011, we had employees from more than 20 nations, from all age groups and from a wide range of different backgrounds. As of 31 December 2011, women accounted for 35 percent of the company's workforce and more than 20 percent of the company's managers.

Due to the substantial workforce reduction and the massive organisational changes, the employees of Phoenix Solar have had to contend with a relatively high degree of uncertainty since October 2011, which is normal under such circumstances. Nonetheless, we are confident that we have taken the right steps to ensure the success of Phoenix Solar AG in the future and that we will again be appreciated as a secure and attractive employer in the current financial year. We will achieve that goal through a variety of measures, including the introduction of additional personnel programs, the assurance of regular and open dialog between managers and employees and the identification and active support of career development steps. We will also intensify international exchanges among our employees.

The Executive Board wishes to thank all employees for their hard work and tremendous dedication in the face of difficult working conditions in 2011.

4 SUSTAINABILITY

Generating electricity from sunlight is itself an act of active environmental protection and an important contribution to ensuring sustainable energy supplies. Besides offering products that protect the environment, Phoenix Solar also places a high priority on sustainable business and management practices. Assuming responsibility for our employees, the environment and society is part of our corporate culture. Therefore, we believe that success in business goes hand in hand with social responsibility and ecological engagement. Our slogan “Phoenix Solar – Producing Energy Together” is the main guiding principle of our corporate philosophy. The main pillars of our sustainability strategy are environmental protection, our employees and a commitment to social responsibility.

4.1 ENVIRONMENTAL PROTECTION

4.1.1 PRODUCTS, SERVICES AND SUPPLIER RELATIONSHIPS

Throughout the world, the Phoenix Solar Group distributes only products that contribute 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_2) 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_2 emissions. Solar power systems generate enough energy to compensate for the energy required to manufacture them in about three 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 and other regulatory requirements. 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. In addition, we observe the building standards of the Nature and Biodiversity Conservation Union in Germany (NABU) and the German Solar Industry Association (BSW).

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. 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.

4.1.2 BIODIVERSITY

Biodiversity refers to the variety of life, including variety within and between species and the variety of ecosystems. Numerous studies have shown that solar power farms can have positive effects on biological diversity. Although construction work always involves some level of intrusion into local flora and fauna, solar power farms can actually enhance or create new habitat for various species of animals and plants. That is particularly true of farmland that previously featured a low level of biodiversity, which can be enhanced considerably when converted into extensively used green space.

Furthermore, the environmentally friendly generation of solar power can also help reduce greenhouse gas emissions from land use, because fields often serve as carbon drains. Furthermore, the non-use of fertilisers and pesticides can lower the incidence of environmental burdens. Besides making an important contribution to species and habitat protection, therefore, solar power also makes a vital contribu-

tion to climate protection. Even inferior land or environmentally contaminated land, such as landfills or previously contaminated conversion areas, for example, can be improved considerably if they are used for solar power farms instead.

4.1.3 CERTIFIED POWER PLANT CONSTRUCTION

The Power Plants segment of Phoenix Solar AG introduced a quality and environmental management system that was certified under the international standards DIN EN ISO 9001:2008 and DIN EN ISO 16001:2004 already in 2009. Thus, Phoenix Solar meets the highest industry standard in this respect. In the following years, the processes implemented for this purpose have been continued, expanded and continuously optimised. The annual follow-up audits have been conducted both by an internal auditor and an external auditor. These audits have demonstrated that the company continues to implement the applicable standards in its power plant construction activities and that the processes are effective. An equally high priority is given to our environmental management system also in those areas of the company that are not officially certified. All our actions are guided by the demands of this system. Phoenix Solar plans to obtain this certification also for other parts of the company and is already taking steps to this end.

4.1.4 ENVIRONMENTAL MANAGEMENT SYSTEM

Phoenix Solar AG has introduced an environmental management system that is based on the existing standards for quality assurance (DIN EN ISO 9000 ff.) and the international standard for environmental management (DIN EN ISO 14000 ff.). The company's environmental management system governs the organisational procedures, the detection of deficiencies, the initiation of corrective measures and the provision of necessary resources to improve and preserve the company's environmental situation. The effectiveness of this system is continually monitored, adjusted and improved by means of periodic reviews. In order to implement the fundamental principles of the company's environmental policy and to improve environmental protection in our operations, we have set the following goals:

- Conserve resources (energy, water, etc.);
- Avoid solid waste and reduce material consumption;
- Avoid possible environmental impacts;
- Give precedence to environmental protection aspects in selecting suppliers and convince suppliers to uphold environmental protection to a greater degree.

Phoenix Solar AG has appointed an Environmental Management Officer to apply and uphold the company's environmental policy and environmental goals. In close cooperation with the senior management, the Environmental Management Officer ensures that the company fulfils and implements all requirements pursuant to DIN EN ISO 14001 and regulatory requirements. Compliance with the company's environmental policy is verified through internal audits at least once a year.

4.1.5 ENERGY MANAGEMENT SYSTEM

We have defined our energy policy as follows: "We of Phoenix Solar AG hereby undertake to reduce our energy consumption on a long-term basis and to enhance our energy efficiency through a process of constant improvement. In order to implement these goals, we will introduce an energy management system conformant with the standard DIN EN 16001:2009. By that means, we will ensure that all the requirements of this standard are correctly implemented and that the processes within this energy management system are continuously improved.

Furthermore, we will conduct regular reviews to ensure that

- The necessary financial and structural prerequisites are met;
- All employees are involved in the implementation and execution of the energy management system and appropriate responsibilities are assigned;
- Relevant legal obligations and other requirements are taken into account;
- Energy aspects and energy data are regularly surveyed and reviewed;
- Programs to promote energy efficiency are correctly introduced and executed;
- The results are measured and reviewed by means of regular audits;
- With respect to our procurement activities, due consideration is given to energy efficiency and consumption as an additional criterion to be met by suppliers."

In financial year 2011, we introduced an energy management system conformant with the standards mentioned above at our location in Ulm; by that means, we established the conditions that will make it possible to efficiently lower our energy consumption for buildings, electrical devices, transportation, the provision of services and or other purposes. The material consumption of water, energy and other resources will be systematically measured, recorded and communicated.

4.1.6 MOTOR VEHICLE FLEET

The Groupwide motor vehicle fleet is required to meet guidelines relative to cylinder capacity, fuel consumption and CO_2 emissions. In terms of CO_2 emissions, our motor vehicle fleet was found to be the second best among leading German companies in 2010, with average carbon dioxide emissions of only 127 grams per kilometre (g CO_2/km), according to a survey conducted by the environmental aid association Deutsche Umwelthilfe. The car driven by our Chief Executive Officer Dr. Andreas Hänel ranked the highest among all participating companies, with only 129 g CO_2/km. Also in 2011, the same environmental aid association honoured Phoenix Solar with the "Green Card for Credible Climate Awareness" in recognition of its low CO_2 emissions. At 113 g CO_2/km, the average CO_2 emissions of the vehicle fleet used by our Executive Board are already less than the European Union target of 120 g CO_2/km, which takes effect in 2012. We added the first electric car to our motor vehicle fleet in December 2010. At our location in Sulzemoos, we set up an electric charging station for employees, guests and the company's own motor vehicle fleet. We will successively add new electric cars to our fleet.

4.1.7 OTHER PROGRAMS

Eco-power For our German locations in Sulzemoos and Ulm, we purchase electricity from a certified eco-power vendor. At least 90 percent of this vendor's electricity mix consists of power generated from renewable energy sources and no more than 10 percent consists of power generated by highly efficient, combined-cycle natural gas-fired power plants.

Ecological heating Since March 2007, our buildings in Sulzemoos have been heated by a wood chip-fuelled thermal power plant. Furthermore, an air conditioning system that draws its cooling energy from existing wells at the site was placed into service in 2009.

Waste sorting The Phoenix Solar Group places the highest priority on the responsible and sustainable use of energy and raw materials in our day-to-day work. At every one of our locations, waste is sorted according to strict criteria, with most of it destined for recycling.

Ecological office supplies We also take great pains to minimise paper consumption. Furthermore, we are very careful in selecting the paper quality of all the print products we produce, such as our annual reports and catalogues, for example. The paper manufacturers from which we purchase paper must bear the seal of the Forest Stewardship Council (FSC).

CO_2-neutral mailing By utilising the GOGREEN offer of the German postal service Deutsche Post, Phoenix Solar AG mails all its letters in a CO_2-neutral manner. As part of the GOGREEN program, the CO_2 emissions caused by mailing letters are calculated and accounted for in accordance with international standards.

"Phoenix eco-commuters" Many employees of Phoenix Solar AG either ride their bicycles to work or use public transportation or car pools. Since initiating the internal project "Phoenix eco-commuters" back in 2008, we have recorded and evaluated the reduction in CO_2 emissions resulting from such measures. On that basis, we found that our eco-commuters avoided more than 32 tons of CO_2 emissions in 2011. This calculation was based on an average fuel consumption of 7 litres per 100 kilometres.

4.2 EMPLOYEES

Detailed information on this subject, including vocational training and continuing education, as well as our corporate culture and personnel strategy, can be found in Section 3 of the present Annual Report.

4.3 SOCIAL ENGAGEMENT

As responsible members of society, we assume responsibility for everyone connected with our company. We are convinced that our success in business is critically dependent on responsible actions and our commitment to social responsibility. To this end, we contribute to a wide range of projects in the areas of social welfare, education, culture and the environment.

We are especially active in the region surrounding our headquarters in Sulzemoos. As one of the biggest companies in the Dachau District, we consider it especially important to make a positive contribution to the development of this region and to promote social and cultural causes in this area. As members of our community, we support many local causes, primarily in the form of monetary and in-kind donations.

Numerous reference projects, both regional and worldwide, can be perused on our website in the sections entitled "Sustainability" and "Social Responsibility."

4.4 RATING

Oekom Research, one of the world's leading rating agencies for sustainable investments, has issued the rating of A- to Phoenix Solar. Oekom Research's corporate rating evaluates the level of responsibility assumed by the company for the persons affected by its activities (social responsibility), society and culture in general (cultural responsibility) and the natural environment (environmental responsibility).

5 GENERAL ASSESSMENT OF THE CURRENT ECONOMIC SITUATION

5.1 MANAGEMENT'S ASSESSMENT OF THE ECONOMIC SITUATION

In many respects, Phoenix Solar AG experienced tumultuous changes in 2011. After several years of continuous growth, the company encountered severe setbacks, which ultimately led to a substantial net loss for 2011. Due to having breached its loan covenant, moreover, the company also had to contend with grave financing problems. For the first time in our history, we were forced to resort to corporate restructuring and workforce reduction. Although much of the restructuring plan agreed with the lending banks has already been implemented, we still face many challenges in the coming months. The new syndicated loan agreement with the lending banks provides a solid foundation for continuing to operate and pursuing future growth. The future success of our company is critically dependent on the rigorous implementation of all adopted measures and the complete attainment of the adopted targets. Thus, the Executive Board will pursue these goals as a top priority.

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 under the percentage-of-completion method;
- Saleability of module inventories (devaluation of inventories);
- Deferred tax assets recognised in respect of tax loss carry-forwards;
- Measurement of stock options;
- Measurement of financial instruments; and
- Recognition and measurement of provisions and 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

Jörn Mortsiefer was appointed new Sales Manager for the Germany, Austria and Switzerland region in the Components & Systems segment on 4 January 2012. Mr Mortsiefer boasts more than 20 years of experience in sales and was responsible for trading activities at Conergy Germany in his capacity of authorised signatory (Prokurist) and Director Sales before joining the company.

The internationalisation of Phoenix Solar AG was taken a step further on 19 January 2012 with the conclusion of an exclusive partnership in Turkey. Phoenix Solar is collaborating with iRES Enerji, one of the leading companies in the renewable energy sector in the country. Turkey in turn is considered an important growth market for the solar industry. Negotiations are already under way regarding the implementation of initial joint projects under the exclusive partnership.

On 26 January 2012, Phoenix Solar announced the completion of a rooftop solar power plant with a peak output of 800kW in Naklo, Slovenia. The solar plant was built in conjunction with Gorenjske elektrarne and has already been connected to the grid of the local power supplier. This is currently one of the ten biggest solar installations in Slovenia.

On 31 January 2012, the Sales Director of Phoenix Solar AG, Ulrich Reidenbach, left the company to devote himself to other interests. His duties were taken over by the Executive Board Chairman, Dr. Andreas Hänel.

In February 2012, collaboration with one of our most important module suppliers was extended to 31 December 2014. The new agreement renders existing procurement commitments almost totally flexible. Furthermore, a pricing mechanism was agreed ensuring that the Phoenix Solar Group enjoys competitive terms and conditions. Among other things, the agreement reached greatly reduces the risk of having to write down inventories because there are no more fixed procurement volumes at fixed dates.

The legislation in Bulgaria regarding the promotion of renewable energy sources was amended during the first quarter of 2012. Up until now, the difficulties faced by this sector had been associated with unclear criteria for connecting the installations to the electricity grid coupled with the capacity of the electricity grids, among other things. In the past, it was possible for grid access to be denied due to grid overload, despite grid access agreements being concluded. One positive aspect of the new Renewable Energy Sources Act (EEG) is that it creates clear rules. The unused grid capacity in each region will be published in the future and producers permitted to submit requests for grid connections. Any investor may check which regions have capacity for grid connections. Following this legislative amendment, the negotiations regarding the sale of the Kazanlak project were stepped up in 2012.

On 10 April 2012, an agreement for at least the partial realisation of the Kazanlak project in Bulgaria was concluded with a prestigious major German company and manufacturer of solar modules. In this context, Phoenix Solar AG assumes no liability whatsoever for selling the project; instead, it is to use the customer's solar modules to install part of the soar park originally planned for 50 MWp on behalf of the customer. The work will be carried out on the basis of a bridging loan from the customer based on the progress of construction work. Furthermore, the customer will assume part of the project rights for a corresponding fee. The contract leads to an new valuation of the necessary offsets of the project rights and services received in 2011, due to the new statutory conditions and the fundamentally different configuration of the agreement in comparison to the originals conditions in 2011. Through the completely new situation, evolving in 2012, the new agreement greatly reduces the project implementation and marketing risk for the company, as the risk is restricted to the timely completion.

A new financing facility with a volume totalling EUR 132 million – consisting of cash and guarantee lines – was signed on 11 May 2012. A key component of this is a new syndicated lending agreement, which expires on 31 March 2014, covering the financing required for the plans in full. The syndicated lending agreement includes customary covenants in a financial restructuring situation. The consistent further implementation of the restructuring program is the most important measure in this context aimed at securing the planned business development, which explains why it has top priority for the Executive Board.

On 23 February 2012, the German Federal Minister of Economics, Philipp Rösler, and the German Federal Minister for the Environment, Norbert Röttgen, presented a summary of findings as a proposal for a joint position of the federal government regarding, among other things, planned amendments to the 2012 Renewable Energy Sources Act (EEG 2012), notably including photovoltaic rates. On 29 February 2012, the federal government adopted this draft wording for an amendment to the 2012 Renewable Energy Sources Act drawn up by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the Federal Ministry for Economics and Technology largely unchanged. This draft was introduced in the Federal Parliament (Bundestag) on 29 March 2012 with a view to having the bill to amend the legal framework for electricity from solar energy and other amendments to the law regarding Renewable Energy Sources in the amended version arising from the report and recommendation of the Environment Committee in second and third reading. Subject to further possible amendments added during the legislative process and approval by the Federal Council (Bundesrat) on 11 May 2012, the new 2012 Renewable Energy Sources Act will contain the following key amendments regarding solar subsidies; the list shows only the aspects that will have a major impact on the business model of the Phoenix Group:

1. Renewed reduction in remuneration rates from 1 April 2012 for plant class 0–10kWp (19.5 ct/kWh), 10–1,000kWp (16.5 ct/kWh), 1–10MWp (13.5 ct/kWh), and the feed-in tariff is discontinued completely for plants >10MWp;
2. Change in the definition of solar field plants; in other words, all plants erected in radius of 4 km and within 24 months within the same municipality are grouped together when assessing the threshold of 10MWp;
3. The market-dependent ("breathing") degression mechanism is restored to the legislation in full: the total annual degression of currently 24 percent is being increased to no more than 29 percent and also a monthly basic degression of 1 percent is being introduced with effect from 1 May 2012. To reflect the market, a market-dependent correction mechanism is being introduced, allowing for a "rolling" quarterly correction of the basic degression on the basis of a 12-month assessment period. The quarterly correction is to be spread across all months in the quarter in each case. A transitional model is to be applied for 2012 to mid–2013 until the first complete 12-month assessment period is completed; this is known as a "maturing" assessment period and will be set up from 1 July 2012;
4. Furthermore, the market integration model (85/90) has been included in the legislation with a view to promoting a minimum share of own use, as only around 85 – 90 percent of the solar energy produced is to be approved for feeding in.

It is expected that transition periods will be permitted for rooftop installations and solar field plants. In the case of rooftop installations, it is envisaged that grandfathering should also be retained in the event of commissioning by 30 June for plants for which the plant operator demonstrably submitted a request for a grid connection (compliant with Section 5 EEG) prior to 24 February 2012. For solar field plants that are subject to a formal procedure (development plan / planning approval procedure), a transition period is being introduced that allows for installation at currently applicable rates in line with technical commissioning by 30 June given an installation or modification decision prior to 1 March 2012; installations on conversion sites receive an extended transition period ending 30 September 2012 with the same conditions. The installations may be commissioned between 1 July and 30 September with a remuneration rate of 15.95 ct/kWh (15 percent degression step at 1 July 2012).

Once the planned changes in the new Renewable Energy Sources Act (EEG) became know, the restructuring plan presented to the financing partners on 15 December 2011 was again revised and adapted. The revised concept presented to the financial backers on 21 March 2012 forms the basis for the new financial concept. At the same time, it forms the framework for the company's activities in the coming months in particular. Among other things, it calls for the elimination of a further 60 posts at the German parent company.

In Italy, the government axed the compensation for solar-field systems on open fields in January with retroactive effect, thus revoking a transition period granted in the Conto Energia IV program. Similarly in January, the Italian network agency GSE announced that it would not open a register for solar-field systems in the second half of 2012. These changes serve to worsen difficult market conditions for large-scale photovoltaic plants that were already difficult anyway on account of finance bottlenecks. The conditions for smaller plants remained positive, however, on account of the installation backlog. However, industry representatives do not expect the record addition of photovoltaic capacity in 2011 to be repeated in 2012, especially as the new subsidy program, Conto Energia V, discussed during the reporting period is expected to include further cuts in subsidies.

In January, the Spanish Ministry of Finance unexpectedly imposed a moratorium on renewable energy subsidies. This applies to all photovoltaic installations not listed in the register of approved plants. This measure was justified by the high level of sovereign debt. Nevertheless, industry experts expect a net-metering regulation to be introduced in May. Under net metering, the quantity of electricity fed into the grid from photovoltaic sources is measured and offset against the quantity of electricity drawn from the grid. Until the arrangements are announced, it will remain extremely difficult to assess how the Spanish market will evolve.

The subsidiary in Australia was closed as planned in the first quarter of 2012 during the year-end closing process on account of the Group's withdrawal from the Australian solar market.

DELAYED PUBLICATION

In response to massive cutbacks to solar subsidies in a number of key markets for Phoenix Solar AG, the restructuring plan presented to the financial backers in December 2011, which also includes the planned company development for the next few years, had to be modified over the last few weeks. This resulted in the financial negotiations of Phoenix Solar AG (ISIN DE000A0BVU93, Prime Standard segment of the Frankfurt Stock Exchange) being delayed. The moratorium agreed with the banking syndicate and the other bilateral creditors, guarantors and commercial credit insurers was extended at the end of March in order to continue the financial negotiations on the basis of the modified restructuring plan. Against this backdrop, the publication of the annual financial statements and annual report for 2011 scheduled for 25 April 2012 was put back by a few weeks. Phoenix Solar AG published an ad hoc notification in this regard on 2 April 2012.

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

The changed underlying conditions will impact on Phoenix Solar AG in some of its core markets, demanding a flexible adaptation of both cost structure and competence profile. It will no longer be possible for power plant construction to concentrate primarily on the German market for major projects as a consequence. In the short term, the markets for larger power plants will be found outside of Germany. The German Components & Systems business is currently suffering from the uncertainty on the market. It is likely to stabilise, nevertheless as small photovoltaic plants will remain profitable under falling system prices, even with the planned reduction of feed-in tariffs.

The 2012 revenue expectations for Phoenix Solar in Germany are being adjusted downwards in response to current developments, not least because prices are expected to decline further. However, it will be possible to offset some of these effects with international projects. The focus will remain on the cost structure of Phoenix Solar AG as a result. The goal will also be to maintain operating competence and capacity across in all areas of the company, while simultaneously boosting competitiveness.

The flexibilisation of the contract with a key module supplier represents a crucial lever in making the offering timely and market-compliant. In particular, the company hopes to reduce inventory risk by ceasing rigid inflows of goods and also avoiding unnecessarily tied capital. Moreover, the cash flow will be employed just-in-time in the optimum case, meaning that the cost of capital can be reduced to a minimum, thus reinforcing the company’s market position and competitiveness.

7 REPORT ON OPPORTUNITIES AND RISK

7.1 MANAGEMENT OF OPPORTUNITIES AND RISKS

7.1.1 RISK POLICY

Phoenix Solar Group is exposed to a number of risks in its capacity as an internationally active company. Consequently, our risk policy is geared to ensuring the continued existence of Phoenix Solar as a going concern and systematically and sustainably increasing the company's value. In line with these principles, all business decisions are only taken after in-depth risk analysis and evaluation have taken place. Because the achievement of commercial success 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, with no decision or action allowed to entail a risk that endangers the continued existence of the company as a going concern.

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 existence 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. This analysis includes identifying opportunities to boost sales and exploit optimisation potential. Our main objective in this regard is to simplify processes so as to achieve better results more quickly and efficiently. We employ key performance indicators to measure and manage the effectiveness of measures aimed at exploiting opportunities. These indicators also serve to analyse deviations in the implementation of corporate strategy and detect ensuing risks at an early stage.

A defined group of risk officers in key functions use a standardised risk inventory list to report existing, newly detected 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 people responsible 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 RISK MANAGEMENT SYSTEM WITH REGARD TO THE REPORTING PROCESS

Our internal control and risk management system with regard to the (consolidated) reporting process is designed to ensure that our accounting system is uniform and compliant with applicable laws and regulations, German generally accepted accounting principles and the International Financial Reporting Standards (IFRS). The purpose of the control system is to provide reasonable assurance that the consolidated financial statements are prepared correctly, in conformity with all applicable laws, regulations and guidelines. This is achieved by means of various control and review mechanisms, including plausibility checks and the strict application of the dual control principle at all levels of the company.

The function of the internal control system is to identify key risks and monitor the measures implemented to counter them. To this end, key elements such as process definitions, job descriptions and alternate representation arrangements are reviewed, including by the internal audit function, to verify that they are complete and up-to-date.

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, Group-wide 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 Group-wide 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 C Note (39) of the notes to the consolidated financial statements.

7.3 OPPORTUNITIES

The biggest opportunities for the Phoenix Solar Group in financial year 2012 result from the restructuring measures that have been initiated. Wide-ranging cost-cutting measures and adjustments to our capacity, combined with far-reaching changes to our operating processes, organisational structure and governance mechanisms, will help to considerably reduce the losses recorded in 2011.

Furthermore, we see additional opportunities to boost liquidity and profits in 2012 by exploiting project rights from our portfolio, for instance.

The amendment to the German Renewable Energy Sources Act (EEG) will open up additional opportunities on the German photovoltaic market with new business models. Phoenix Solar AG is currently in the process of devising such models and, should they be successfully reviewed, will establish them. Furthermore, we expect that photovoltaic plants will remain attractive in Germany in the medium term, even without state subsidies. The uncertainties and restrictions surrounding the conditions for subsidies are being removed at this point in time. This gives rise to options for Phoenix Solar AG, the extent of which it is not possible to fully estimate today.

We will go on systematically applying our strategy of greater internationalisation. The focus in 2012 will be on the United States and Asia, where markets like India, Malaysia and Thailand continue to show considerable growth potential. Global demand will no longer be concentrated in a few major, domestic markets going forward; instead, it will also be driven by a number of smaller, new markets. New solar markets are emerging round the world in countries like in Israel and South Africa. This will reduce dependence on subsidy laws in a given country.

7.4 RISKS

7.4.1 EXTERNAL AND INDUSTRY RISKS

Political and regulatory risk The development of national photovoltaic markets will again be promoted or impeded in 2012 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 Energy Sources Act, every reduction in feed-in remuneration that cannot be offset by lower procurement prices leads to lower returns on new photovoltaic plants, which reduces the attractiveness of such plants for potential buyers. Unannounced, ever more frequent and radical changes in the legal framework decrease the stability of feed-in commitments. This 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, the Phoenix Solar Group is systematically pursuing a strategy of internationalisation. By that means, the company is also countering the risks associated with the debates concerning the further structuring of the feed-in arrangements – particularly under the German Renewable Energy Sources Act – in the most important markets for Phoenix Solar AG at the present time: Germany, France and Italy.

Market, competition and external factors The ongoing energy-policy discussions in a number of major European markets including Italy and Germany are leading to uncertainty on both the demand and the investor side. The incentive to invest in photovoltaic power plants in these markets is declining accordingly. In Germany in particular, this resulted in caution at first in 2011, followed by catch-up effects later on in the year. The persistently evident reticence of banks in both Italy and other south European countries with regard to extending project finance to potential investors is similarly inhibiting the expansion of business activities. Resulting delays in the execution of projects, or completely absent project completions, can therefore endanger the achievement of growth targets in these markets. Furthermore, it is possible that fully developed projects will prove impossible to sell on account of a lack of finance, which would have a negative effect on the company's revenues and results of operations.

In response to the large decline in prices in 2011, Phoenix Solar AG has made estimations regarding the development of sales prices based on the information available when the annual financial statements were drawn up and written down the existing inventories to the expected market prices. Should market developments arise in the future that are affected by other factors that were not known when the write-downs were taken, this may make it necessary to take further write-downs with consequences for the Group's results of operations.

Lengthier delays in the process of selling large photovoltaic plants leading to delayed cash inflows would pose a risk to the liquidity management efforts of the Phoenix Solar Group. The Group counters such risks by means of active working capital management.

7.4.2 STRATEGIC RISKS

Restructuring risk The rapid changes in the market environment, complete with much lower prices for solar modules and systems, will lead to considerable decreases in both revenues and earnings, even if sales volumes remain the same. As it can be assumed that sales prices will not rise in the coming years either, this development has been countered by optimising the business model. The Executive Board has worked with external experts to closely examine the business model, which resulted in its fundamental sustainability being confirmed. The restructuring plan includes wide-ranging changes to the organisational structure, processes, capacity and corporate governance mechanisms. Nevertheless, it cannot be guaranteed that these measures will yield the desired success within the timeframe envisaged.

International expansion risk The Phoenix Solar Group takes advantage of opportunities to establish a foothold in international markets through its worldwide network of subsidiaries, in order to reduce its dependence on Germany and 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.

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.

7.4.3 BUSINESS RISKS

Procurement risk 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.

In terms of module procurement, we successfully renegotiated a long-term agreement with a module supplier at the start of the current financial year. The previous, fixed purchasing obligations at set dates have been replaced by almost completely flexible arrangements. The procurement prices have also been enhanced, which will help to make Phoenix Solar far more competitive. These new conditions will considerably reduce the risk of having to charge value adjustments against inventories as a result of this agreement going forward.

7.4.4 FINANCIAL RISKS

Financing risk A new syndicated lending agreement was signed on 11 May 2012. In conjunction with other bilateral financing arrangements, the agreement, which expires on 31 March 2014, covers the financing required for the plans in full. Among other things, it contains customary covenants. The consortium would be entitled to terminate the credit lines if these covenants are not met. This would lead to an endangerment of the continued existence of the company as a going concern.

However, company management currently believes that the company's solvency is secured for the term of the syndicated loan. This belief is based notably on the conservative assumptions regarding cash inflows and outflows in the underlying corporate plan.

Starting from the consolidated profit after taxes for 2011 together with corporate planning, no scenarios are currently likely that would see the parent company's equity consumed to such an extent that its liabilities would exceed its assets.

Liquidity risk One factor affecting the availability of credit to finance photovoltaic power plants is the more restrictive lending practices of banks. 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. Phoenix Solar is responding to this at

this stage by shifting the focus towards the EPC business. This business is typified by bridging loans for construction work, thus reducing the liquidity required. Furthermore, liquidity risk is limited by more restrictive internal regulations regarding the start of construction of solar power plants. Nevertheless, such risk is inherent in the business to a certain extent and hence cannot be completely avoided. Strict liquidity, receivables and claim management is an instrument used to control this risk.

Currency and interest rate risk Some of our financial ratios are affected by exchange rate fluctuations arising from our global business activities. We limit transaction-related currency risk by optimising operational cash inflows and outflows. Currency hedges in the form of currency futures and options are concluded to cover currency risk beyond this level.

7.4.5 OTHER RISKS

Legal and tax risk Within the framework of its normal operating activities, the Phoenix Solar Group may be involved as a party in court or other legal proceedings. This relates primarily to court proceedings against customers regarding unpaid invoices and claims asserted against our company by customers or suppliers. Provisions are set up for such legal disputes as soon as it is probable that an obligation will arise and an accurate assessment of this amount is possible. The provisions that have been set up may prove to be inadequate in individual instances, which would have an impact on the results of operations, cash flows and financial position of the corporate group.

Changes to the tax and/or statutory regimes in individual countries in which Phoenix Solar operates could lead to an unforeseeable increase in tax payable. Furthermore, tax risk may arise when national tax authorities treat the Group-wide transfer prices for intra-Group supplies differently. This would have an impact on the deferred taxes recognised by the Phoenix Solar Group.

Personnel risk We were forced for the first time to reduce the number of people we employ under the restructuring measures initiated in our company. This involved both a reduction in our headcount and a corresponding loss of operational and functional know-how. In this context, there is the potential risk of not being able to hire adequately trained staff – especially in key positions – following the upcoming consolidation phase in the Phoenix Solar Group.

IT risk The vital business processes of the subsidiaries and the entire corporate group depend heavily on the reliability of the IT systems. Consequently, our IT systems are subject to a constant review process, especially with regard to data security. Since this security is a constant process and not a status, the IT infrastructure is regularly updated and enhanced. With this in mind, a new ERP system was introduced during financial year 2011 with a view to linking to all the Group's divisions and functions more closely and enhancing information processing.

7.5 GENERAL ASSESSMENT OF THE GROUP'S RISK SITUATION

In the opinion of the Executive Board, the risks described were controllable and the continued existence of the Phoenix Solar Group was not endangered when the present report was prepared. This is the case for both the individual companies and the corporate group as a whole. Compared with last year, the overall risk position has worsened, notably on account of a change in the market towards a buyer's market, rising competitive pressure, potential changes to the regulatory framework and the at times challenging adjustments that need to be made as a result. Based on the information currently available, we do not expect the risk situation described to fundamentally worsen or deteriorate during the current financial year, 2012.

8 FORECAST REPORT

8.1 FUTURE STRATEGIC ORIENTATION OF THE GROUP

In connection with the restructuring plan, Phoenix Solar AG commissioned outside experts to conduct an in-depth review of the company's business model. Based on this review, the experts found that the two segments of Components & Systems and Power Plants are sustainable. Consequently, the business activities of the two segments will be preserved and optimised further. The sub-division into the business segments of solar field systems and roof-top systems was found not to be meaningful and so that sub-division was abandoned and the corresponding activities have been placed under the same management team again since February 2012.

The internationalisation strategy pursued by Phoenix Solar to date was also reviewed in connection with the restructuring report. It was found that the Group is represented in all important, viable photovoltaic target markets and therefore there is no need to modify the strategy in this respect.

Under the turnaround and restructuring program that was updated in mid-March, Phoenix Solar will pursue a comprehensive approach to drastically lower costs, make its key processes more flexible and substantially enhance transparency for managerial purposes. On the procurement side, we will continue to systematically make the supplier base smaller and more focused, so as to optimise the company's procurement policies. Highest priority will be given to the goal of reducing inventories to a "sensible" level, which will make the company significantly less prone to the risks associated with price fluctuations. To this end, the company will order modules and inverters on a project-specific basis only when nothing stands in the way of the general execution of the respective project. By means of that policy, the company can avoid stocking up inventories as a result of project delays. In addition, the company will pursue negotiations with its non-European suppliers in order to convince them to store some of their inventories in Europe, so as to minimise or eliminate price fluctuation risks that can arise during the otherwise very long transport times.

8.2 PROSPECTS IN THE MOST IMPORTANT SALES MARKETS

In the core market of Germany, Phoenix Solar anticipates challenging conditions in 2012, for two main reasons. The amendment to the German Renewable Energy Sources Act (EEG) mainly contains changes to subsidies for solar energy in Germany that will serve to greatly restrict the business model of Phoenix Solar AG in its domestic market. Discontinuation of the feed-in tariff for plants with output of over 10 MWp would cause the market for projects of this magnitude to collapse. Remuneration for all other plants will similarly be reduced and cut faster than previously planned with a "breathing degression mechanism". The definitive legislation remains to be seen in May 2012.

At the present time, moreover, little if any growth impetus can be discerned in the other countries of Europe besides Germany. The market in Greece will still be hampered by financing problems and bureaucratic obstacles. Further subsidy reductions were resolved in that country, effective 1 February 2012, but they are not expected to have a material influence on the development of the photovoltaic market there. The Italian photovoltaic market can be expected to shrink considerably as a result of the high level of public debt and the expiration of subsidies for solar field systems. In late January, it was announced in Italy that the funds set aside for subsidising large solar field systems have already been exhausted, so that large photovoltaic systems will no longer receive subsidies in the second half of 2012. Also in France, the industry environment appears to be taking a negative turn, due to the new requirement introduced in 2011 that photovoltaic systems with generating capacities of more than 100 kWp must be the subject of public tender procedures. In Spain, a moratorium was announced in late January

2012, under which all grid feed-in tariffs will be suspended temporarily. This moratorium affects not only renewable energies, but also combined-cycle power plants and the use of solid waste to generate electricity. Plants that are already in operation or are listed in the so-called PREFO Register are not affected by the moratorium. This decision may have a critical impact on the development of the photovoltaic market in Spain and on the Spanish subsidiary of Phoenix Solar AG.

On the other hand, positive prospects can be identified in the Asian markets. Continued high growth rates can be expected particularly in India, Malaysia and Thailand. A similarly high growth potential can be discerned in the United States; however, it remains to be seen what effect the expiration of cash grants at the end of 2011 will have on the future development of the photovoltaic market in that country.

8.3 GENERAL ECONOMIC CONDITIONS

8.3.1 ECONOMIC OUTLOOK

Experts predict that the economic recovery will continue in 2012, albeit at a more moderate pace than in 2010. According to the latest estimates of the International Monetary Fund (IMF), global economic output will expand at a rate of 3.3 percent. With a forecast growth rate of 5.4 percent, emerging-market countries are expected to make a disproportionately large contribution to global economic growth. For the industrialised nations, experts are predicting much slower growth of 1.2 percent. The economic development of the euro zone in particular will be hampered by the high levels of government debt in some member states. European economic output is expected to contract by 0.5 percent in 2012, corresponding to a mild recession. According to the estimates of the IMF's experts, the U.S. economy will continue on a course of moderate recovery by expanding at a rate of 1.8 percent. The IMF predicts relatively strong economic growth of 7.3 percent for the Asian emerging-market countries. The Chinese economy is expected to expand at a rate of 8.2 percent and the Indian economy at a rate of 7.0 percent. In view of the merely moderate rate of global economic expansion, the IMF's experts are predicting a substantial decline in commodity prices and a slight decline in oil prices in 2012. That development would temporarily blunt the rise in prices for conventional energy, which have recently undergone a substantial increase. Therefore, the price gap with renewable energies will not be narrowed significantly, so that no supplementary incentive for using renewable energies can be expected.

8.3.2 OUTLOOK FOR THE PHOTOVOLTAIC INDUSTRY

Most industry experts and associations are predicting continued growth for the worldwide photovoltaic market in 2012, albeit with considerable regional differences. Whereas little or no positive impetus can be discerned in the European photovoltaic market, the Asian market in particular is expected to drive the growth of the photovoltaic industry in 2012. Given the high level of uncertainty concerning the future development of subsidy programs in key photovoltaic markets, it is practically impossible to offer concrete forecasts at the present time. Generally speaking, the industry will be affected by two opposite trends in 2012. On the one hand, the support for renewable energy sources among governments and populations will remain high, for reasons of environmental and climate protection; on the other hand, the unpredictably strong growth in practically all key markets of the last few years (such as Germany, Italy, Spain, France, the Czech Republic and Great Britain) in the last few years has since been perceived as a sign of over-heating. Some of these countries have already imposed considerable, unscheduled reductions in photovoltaic subsidy programs, while in other countries, particularly Germany and Italy, such reductions are currently being discussed or incorporated in relevant legislation.

In the estimation of Phoenix Solar, the German market reached its peak for new installations in 2011. Based on market forecasts, the company anticipates a much smaller market volume of between 5 and 8 GWp in 2012, although this forecast is fraught with considerable uncertainty. The reduced grid feed-in remuneration rates will have a decisive effect on the market in the short term. Based on the laws currently in effect, photovoltaic subsidy rates in Germany are supposed to be reduced by up to 42 percentage points during the course of 2012. It is highly questionable whether such a significant reduction in subsidy rates can be offset by system price reductions. The actual development of the photovoltaic market will depend in large part on the results of the current debate concerning future subsidisation policy and is practically impossible to predict at the present time. Given this context, 2012 will be a critically important year for the photovoltaic industry in Germany.

A maximum subsidy limit of 500 MWp was established for the French market in 2011. Because there is currently a backlog of projects under construction, however, the market volume in France could reach about 1 GWp in 2012. In Italy, new installed capacity is expected to shrink from the 2011 level to about 4.7 GWp in 2012. In view of the anticipated declines in the most important European markets, based on relevant market forecasts, Phoenix Solar expects that the European photovoltaic market as a whole will shrink to somewhere between 13 and 16 GWp in 2012.

By contrast, the worldwide growth of the photovoltaic market will be driven by dynamic markets such as the United States, where we anticipate new installed capacity of around 3.1 GWp in 2012. The Chinese market is expected to remain constant compared to 2011, with new installed capacity of 2 GWp.

The Phoenix Solar Group expects the global market to reach a level of between 21 and 28 GWp in 2012.

Given the difficult market situation and the persistent supply glut, prices of modules and other system components such as inverters can be expected to continue falling. Not all market players will be able to achieve the necessary cost reductions and the necessary improvements in efficiency and flexibility. Therefore, the consolidation of the photovoltaic industry will continue or even accelerate.

8.4 ANTICIPATED BUSINESS DEVELOPMENT

8.4.1 ANTICIPATED DEVELOPMENT OF THE OPERATING SEGMENTS

Components & Systems In view of the continuing discussion of further subsidy reductions in various countries in the first half of 2012, Phoenix Solar anticipates a slight decrease in the volume of business conducted by the Components & Systems segment. Given the continued, moderate decline in module prices, moreover, the company anticipates smaller profit margins. Phoenix Solar continues to pursue a strategy of internationalisation, in order to further reduce the company's dependence on the German market. At the present time, however, it is extraordinarily difficult to offer an exact forecast of the political environment for photovoltaic energy in Europe over the course of 2012. Nonetheless, a growing number of smaller photovoltaics systems can be observed as a trend throughout Europe, which should guarantee a somewhat stable target market for the Components & Systems segment. The stability of this market will be further supported by the growing competitiveness of solar power, which will significantly enhance the appeal of self-consumption solutions. Again in 2012, the development of the German market will be of crucial importance to the business success of Phoenix Solar.

Power Plants (domestic and international) We expect that conditions in this market segment will continue to be difficult, due to subsidy restrictions and further cuts in subsidised tariffs. In our estimation, solar power plant construction in Germany and Europe will be subject to intensified competition and strong price pressure in the project business. According to our business plan, this factor coupled with a business policy geared more to risk avoidance and profit margins will lead to substantially lower revenues in the short term; and it will not be possible to offset any significant portion of this decrease in domestic revenues through the continued growth of growing international activities.

8.4.2 ANTICIPATED BUSINESS DEVELOPMENT ON THE GROUP LEVEL

In view of the current restructuring efforts, the company is not seeking to become engaged in additional business areas at the present time and therefore its activities will be contained within the Components & Systems and Power Plants segments. Besides implementing the restructuring program, the operating segments will continue to pursue a steady, albeit restrained growth strategy in the growth markets mentioned above.

8.5 ANTICIPATED DEVELOPMENT OF CASH FLOWS AND LIQUIDITY

8.5.1 ANTICIPATED DEVELOPMENT OF CASH FLOWS ON THE GROUP LVEL

The financing requirements determined in connection with the company's business plans are completely satisfied by the newly concluded finance facilities. Assuming that the company's business performance allows it to fulfil the customary market covenants and no other events lead to the cancellation of this loan agreement, the Group's financing is assured through 31 March 2014. .

8.5.2 DEVELOPMENT OF LIQUIDITY

Banks are increasingly restrictive in their lending to finance photovoltaic systems, which has led to delays (in some cases considerable delays) in the construction of planned projects. Moreover, it can be expected that the search for suitable investors will become more difficult and time-consuming. Phoenix Solar will respond to this trend initially by shifting its focus to the EPC business, which is typically financed by construction bridge loans, thereby reducing the need for liquidity. In addition, liquidity risks will be limited by means of more restrictive internal rules on when to commence construction of solar power plants. Nonetheless, such risks are inherent in the business, to some extent, and cannot be entirely avoided. The instruments employed by the company to master these risks are rigorous liquidity management, receivables management and claims management.

8.6 FUTURE 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. Phoenix Solar paid a dividend of EUR 0.35 per share for financial year 2010. Due to the fact that the company incurred massive losses in 2011 and is currently undergoing a restructuring phase, no dividend payments are planned in the foreseeable future.

8.7 MEDIUM-TERM OUTLOOK

Beyond the short-term outlook (see Sections 8.3.1 and 8.3.2 above), Phoenix Solar AG expects that the worldwide demand for energy will increase in the coming years, which will accentuate the importance of renewable energies. At the same time, the competitiveness in particular of photovoltaic energy will be enhanced, as grid parity is reached in key markets. Provided that key markets such as Germany and Italy are not throttled by unscheduled subsidy reductions or eliminations, experts predict that the global market will continue to grow in the medium and long term.

In Germany, we expect that photovoltaic expansion targets will be aligned with national climate protection goals in the future. These goals are set out in the National Action Plan for Renewable Energy Sources, which calls for total installed photovoltaic capacity of about 52 GWp by the year 2020. That corresponds to an annual new installation rate of about 3 GWp. Following the projected market contraction in 2012 compared to 2011, we anticipate steady growth of installed capacity.

By contrast, the overall European photovoltaic market is expected to continue shrinking even in 2013, before market growth can resume in the subsequent years, as grid parity is achieved in many regions.

In the medium-term future, the global market will be driven mainly by strong growth in China, the United States and other emerging markets, primarily in Asia.

Based on the foregoing, we anticipate that the global market will expand at an average long-term rate of more than 20 percent per year through the year 2020.

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

Based on the review conducted of the business model of Phoenix Solar in connection with the restructuring report, the two segments of Components & Systems and Power Plants will be continued. The adopted restructuring concept entails numerous individual measures, most of which to be implemented in 2012, with the aim of adapting the company to the changed market conditions and making it fit for the future.

In financial year 2012, Phoenix Solar AG plans to generate revenues in the range of EUR 210 million to EUR 240 million and an EBIT in the range of EUR –19 million to EUR –25 million. This EBIT figure will be weighed down by a number of non-recurring effects related to the restructuring and the new financing. The company's earnings will also be burdened by various trailing costs, including costs related to the substantial workforce reduction. In 2013, the Executive Board expected to generate revenues again in the range from EUR 280 million to EUR 310 million and an EBIT in the range from EUR –5 million to EUR 0 million. Due to the expectation of a more difficult market environment in the lead market of Germany, the company will work intensively to further advance the internationalisation of its business, with particular emphasis on the Asian region and North America.

For the years 2012 and 2013, the Executive Board perceives additional revenue and earnings opportunities, as in the project business, for example, which are not reflected in the business plan. By the same token, the business plan does not incorporate various risks, particularly including unforeseeable changes in the current legislative framework and further reductions in grid feed-in tariffs in the company's key markets.

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, 12 May 2012
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Dr. Bernd Köhler
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

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CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2011 UNTIL 31 DECEMBER 2011 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

Consolidated income statement 081
Consolidated statement of comprehensive income 081
Consolidated balance sheet 082
Consolidated statement of changes in equity 084
Consolidated cash flow statement 085

CONSOLIDATED INCOME STATEMENT

for the period from 01/01/ until 31/12/2011	Notes C.	2011 k€	2010 k€
Revenues	(1)	393,484	635,676
Change in inventory of work in process	(2)	10,865	163
Overall performance		**404,349**	**635,839**
Other operating income	(3)	9,402	4,848
Cost of materials	(4)	430,911	554,372
Personnel expenses	(5)	29,992	23,586
Depreciation and amortisation		1,636	1,094
Other operating expenses	(7)	35,919	25,293
Operating result		**– 84,707**	**36,342**
Result from associated companies		27	58
EBIT		**– 84,680**	**36,400**
Financial income		380	231
Financial costs		4,597	2,483
Financial result	(9)	**– 4,217**	**– 2,252**
Consolidated net income before income taxes (EBT)		**– 88,897**	**34,148**
Income taxes	(10)	– 2,522	10,014
Consolidated net income for the period		**– 86,375**	**24,134**
– of which due to minority interest		632	– 19
– of which due to majority shareholders		– 87,007	24,153
Earnings per share			
Earnings per share (basic)	(11)	– 11.80	3.44
Earnings per share (diluted)	(11)	– 11.80	3.44

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 01/01/ until 31/12/2011	Notes D.,	2011 k€	2010 k€
Consolidated net income for the period		**– 86,375**	**24,134**
Transactions associated with minority interests		– 19	0
Differences from currency translation		347	– 38
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(27)	328	– 38
Overall performance		**– 86,047**	**24,096**
– of which due to minority interest		612	– 19
– of which due to majority shareholders		– 86,659	24,115

CONSOLIDATED BALANCE SHEET

as per 31 December 2011

ASSETS	Notes C. & D.	2011 k€	2010 k€
Noncurrent assets			
Intangible assets	(12)	4,503	3,471
Goodwill		533	533
Property, plant and equipment		3,197	3,110
Investments in associates		395	418
Other participating interests		160	160
Noncurrent receivables	(18)	498	688
Deferred tax assets	(10)	2,236	1,799
Noncurrent other financial assets	(23)	806	725
Total noncurrent assets		**12,328**	**10,904**
Current assets			
Inventories	(19)	55,911	149,536
Prepayments		1,033	3,346
Receivables from long-term construction contracts	(21)	14,995	82,227
Trade receivables	(22)	31,597	31,140
Current other financial assets	(23)	10,629	6,816
Current other non-financial assets	(25)	7,631	18,015
Current income tax assets	(10)	3,367	1,735
Cash and cash equivalents		6,412	9,588
Total current assets		**131,575**	**302,403**
Total assets		**143,903**	**313,307**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes C. & D.	2011 k€	2010 k€
Equity			
Subscribed capital	(27)	7,373	7,373
Capital reserve	(27)	64,528	63,559
Accumulated other equity	(27)	– 17,787	71,453
Share of majority shareholders in consolidated equity		**54,114**	**142,385**
Share of minority interest in consolidated equity		692	60
Total equity		**54,806**	**142,445**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities		74	37
Noncurrent provisions		2,452	2,196
Deferred tax liabilities	(10)	21	3,113
Total noncurrent liabilities and provisions		**2,547**	**5,346**
Current liabilities and provisions			
Current financial liabilities	(28)	24,726	52,642
Liabilities from long-term construction contracts	(21)	1,749	267
Trade payables	(30)	24,531	84,538
Other financial liabilities	(31)	4,038	7,044
Other non-financial liabilities	(31)	13,763	13,047
Current provisions	(29)	9,861	1,693
Current income tax liabilities	(10)	7,882	6,285
Total current liabilities and provisions		**86,550**	**165,516**
Total liabilities and shareholders' equity		**143,903**	**313,307**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/ until 31/12/2011	Notes D.	Subscribed capital k€	Capital reserve k€	Accumulated other equity k€	Share of majority shareholders in consolidated equity k€	Share of minority interest in consolidated equity k€	Total equity k€
As per 01/01/2010		6,701	41,805	48,679	97,185	79	97,264
Reserve for share options	(27)		1,264		1,264		1,264
Exercise of share options	(27)	1	33		34		34
Dividend payment				– 1,341	– 1,341		– 1,341
Increase of share capital		671	20,457	0	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
As per 31/12/2010		**7,373**	**63,559**	**71,453**	**142,385**	**60**	**142,445**
As per 01/01/2011		**7,373**	**63,559**	**71,453**	**142,385**	**60**	**142,445**
Reserve for share options	(27)		969		969		969
Dividend payment				– 2,581	– 2,581		– 2,581
Difference from currency translation	(27)			348	348		348
Consolidated net income in 2011				– 87,007	– 87,007	632	– 86,375
As per 31/12/2011		**7,373**	**64,528**	**– 17,787**	**54,114**	**692**	**54,806**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 01/01/ until 31/12/2011	Notes C. & D.	2011 k€	2010 k€
Consolidated income before income taxes		– 88,897	34,148
Depreciation and amortisation		1,636	1,094
Other non-cash income (–) and expenses (+) (including result from associated companies)		22,235	4,346
Profit/loss from disposal of intangible assets and equipments		– 1	– 3
Financial income	(9)	– 380	– 231
Financial costs	(9)	4,597	2,483
Sub-total		**– 60,810**	**41,837**
Increase/decrease in provisions (net of discounting effects and non-cash releases)		8,849	634
Increase/decrease in inventories	(19)	71,920	– 84,790
Increase/decrease in prepayments		2,312	695
Increase/decrease in receivables from long-term construction contracts	(21)	67,232	– 41,155
Increase/decrease in trade receivables (excl. non-cash transactions)		– 3,243	– 6,736
Increase/decrease in assets	(23), (25)	6,697	– 16,166
Increase/decrease in liabilities	(31)	– 58,252	35,797
Funds generated by operating activities		**34,705**	**– 69,884**
Interest paid	(9)	– 4,098	– 1,857
Income taxes paid	(10)	– 852	– 12,757
Cash flow from operating activities		**29,755**	**– 84,498**
Proceeds from associated companies		37	45
Proceeds from disposal of intangible assets and equipment		10	3
Purchase of intangible assets and equipment	(12)	– 2,797	– 2,880
Cash flow from investing activities		**– 2,750**	**– 2,832**
Payments in connection with increases in subscribed capital	(27)	0	21,050
Dividends paid	(27)	– 2,581	– 1,341
Payments in connection with financial liabilities	(28)	– 27,878	52,627
Interest income	(9)	278	121
Cash flow from financing activities		**– 30,181**	**72,457**
Changes in cash and cash equivalents		– 3,176	– 14,873
Currency-induced changes in cash and cash equivalents		0	0
Consolidation-related changes in cash and cash equivalents		0	0
Net change in cash and cash equivalents		**– 3,176**	**– 14,873**
Cash and cash equivalents at the start of the period		9,588	24,461
Cash and cash equivalents at the end of the period		6,412	9,588
Increase/decrease in cash and cash equivalents		**– 3,176**	**– 14,873**

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE 2011 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. Basic principles and methods ... 087
B. Recognition and measurement methods ... 100
C. Notes to the consolidated income statement ... 110
D. Notes to the consolidated statement of financial position ... 118
E. Other notes to the consolidated financial statements ... 136
F. Other disclosures ... 137
G. Supplementary disclosure obligations pursuant to the German Commercial Code (HGB) ... 148
H. Date and signing of the consolidated financial statements ... 151

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL INFORMATION

As of 31 December 2011, the Phoenix Solar Group (also referred to hereinafter as the Phoenix Group) consisted of 30 companies with a total of 401 (PY: 319) employees (including members of the Executive Boards).

The parent company, which is also the high-level 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 Prime Standard segment of the German stock exchange operated by Deutsche Börse AG, Frankfurt am Main, since 18 November 2004. The Prime Standard is one of the EU-regulated segments; it is the admission portal for companies that also wish to address international investors. Companies listed in the Prime Standard segment are required to apply the accounting regulations of the International Accounting Standards Board (IASB), those being the International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC), to the extent they have been adopted in the European Union by way of the EU endorsement process.

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 2011.

(2) INFORMATION ON ACCOUNTING STANDARDS

The shares of Phoenix Solar AG are traded in the Prime Standard segment of the Regulated Market 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.

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) issued by the International Accounting Standards Board (IASB) in London and adopted by the EU. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to financial year 2011 and the earlier interpretations of the Standing Interpretations Committee (SIC), insofar as adopted by the EU until preparation of these consolidated financial statements, as well as the supplementary provisions of Section 315a 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 additional Group management report. The consolidated financial statements were prepared on the basis of 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 items of the statements of financial position 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 profit or loss.

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 in accordance with the standards of the IASB 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:**

As a general rule, 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 SELLING 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 photovoltaic 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.

DETERMINATION OF 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 of the tested cash-generating unit; 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 expected future cash flows and the growth rate applied for extrapolation purposes.

MEASUREMENT OF FINANCIAL INSTRUMENTS

either on the basis of derived market prices or through the use of recognised valuation models such as the discounted cash flow method. The Group applies the "fair-value hierarchy" defined in IFRS 7, under which the fair value is determined on the basis of input factors assigned to one of three levels, depending on the reliability of the respective input factors, as follows:
– Level 1: Quoted prices for similar instruments,
– Level 2: Directly observable market input factors, if not assignable to Level 1,
– Level 3: Input factors not based on observable market data.

Model inputs classified as Level 1 and 2 are determined to the greatest extent possible on the basis of observable market data. When that is not possible, as in the case of Level 3 inputs, 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 instrument (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 expensed proportionally 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 reporting 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 2011

The IASB published the revised IAS 24 Related Party Disclosures on November 4, 2009. The revised Standard is to be applied in reporting periods that begin on or after 1 January 2011. This revision, which has been adopted under EU law, will not necessitate any additional disclosure obligations for the Phoenix Group.

On 6 May 2010, the IASB published the "Annual Improvements to IFRS 2008–2010," by which six IFRS and one Interpretation (IFRIC) were revised. Unless otherwise noted, the revisions adopted under EU law are to be applied in reporting years that begin on or after 1 January 2011. Earlier application is permitted. The revisions will not have any material effects on the current accounting practices of the Phoenix Group.

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 2011. However, these rules are not relevant to the consolidated financial statements of the Phoenix Group.

On 26 November 2009, the IASB published a revision to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction and an exposure draft of a revision to IFRS 1 First-Time Adoption of International Financial Reporting Standards. The revised IFRIC 14 is relevant in those rare cases in which a company is subject to minimum funding requirements and makes advance contributions to fulfil these minimum funding requirements. The revised IFRIC 14 must be applied as of 1 January 2011; earlier application in financial statements as of 31 December 2010 is permitted. The revision has been adopted under EU law. Because the Phoenix Group has not assumed defined benefit obligations to its employees as of the reporting date, this revision will have no effect on the Group's accounting practices.

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

On 20 December 2010, the IASB published new revisions to IFRS 1 First-Time Adoption of International Financial Reporting Standards. In the revised version, previous references to the date of 1 January 2004 have been replaced with a reference to the date of transition to IFRS. In addition, the new Standard prescribes rules for those cases in which a company is not able to fulfil all IFRS regulations due to hyperinflation. The revised Standard is to be applied in reporting periods that begin on or after 1 July 2011. It has not yet been adopted under EU law. The revision is not relevant to the Phoenix Group.

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 2012 at the earliest.

On 12 May 2011, the IASB and the Financial Accounting Standards Board (FASB) published the joint Standard IFRS 13 Fair Value Measurement. The Standard deals with matters of fair value measurement and related disclosures in the notes. The goal is to bring about a further convergence of IFRS with U.S. Generally Accepted Accounting Standards (US GAAP). IFRS 13 offers guidance for measuring fair value, to the extent that fair value measurement is required by other IFRSs; thus, IFRS 13 does not extend the scope of fair value measurement. The goal is to harmonize IFRS and US GAAP with respect to the definition of fair value and the methods to be applied in measuring fair value, and particularly also the required disclosures in the notes related to fair value measurement, .

The new Standard must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. It has not yet been endorsed by the EU. The Phoenix Group is currently reviewing the new Standard to determine what effects, if any, the changes will have on the presentation of the Group's financial position, cash flows and results of operations.

On the same date, IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as part of a comprehensive reform project. In this connection, IAS 27 (2011) Separate Financial Statements was adjusted so that it now only contains the unrevised rules applicable to separate financial statements according to IFRS. Finally, IAS 28 (2011) Investments in Associates and Joint Ventures was amended and adapted to reflect the new Standards IFRS 10, 11 and 12.

IFRS 10 establishes a uniform definition for control and therefore a uniform basis for identifying the existence of a parent-subsidiary relationship and the related delineation of the consolidation group. The new Standard replaces the formerly relevant IAS 27 (2008) Consolidated and Separate Financial Statements and SIC–12 Consolidation - Special Purpose Entities.

– IFRS 11 applies to the accounting treatment of situations in which a company exercises joint control over a joint venture or joint operation. The new Standard replaces IAS 31 Interests in Joint Ventures and SIC–13 Jointly Controlled Entities - Non-Monetary Contributions by Venturers, which had previously governed the accounting treatment of joint ventures.
– IFRS 12 applies to the disclosures to be made in the notes to the consolidated financial statements concerning interests in other entities and joint arrangements.

The new Standards must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. The EU has not yet endorsed these new Standards. At the present time, the Phoenix Group anticipates that these publications will not lead to any changes in the consolidation group.

On 16 December 2011, the IASB published a revision of IFRS 9 Financial Instruments, which postpones the obligatory date of first-time application of IFRS 9 to 1 January 2015 (previously 1 January 2013). This amendment is meant to allow for the concurrent application of all the regulations of IFRS 9, because only Phase 1 (Recognition and Measurement of Financial Instruments) has been completed to date, whereas Phases 2 and 3 (Impairment und Hedge Accounting) of the IAS 39 Replacement Project are still being discussed.

Furthermore, the revised version allows reporting entities the option of not adjusting the prior-year comparison figures upon the first-time application of IFRS 9. Originally, this simplification option had been allowed only if IFRS 9 were to be applied prior to the obligatory date of 1 January 2012. Companies that exercise this option are required to make additional disclosures in the notes to the financial statements according to IFRS 7 at the transition date. Such disclosures are meant to enable investors to assess the effects on the recognition and measurement of financial instruments resulting from the first-time application of IFRS 9.

The postponement of the obligatory date of first-time application does not entail any changes to the Phase 1 regulations of IFRS 9 that have already been adopted. Earlier application is still permitted.

The revised Standard has not yet been endorsed by the EU. The Phoenix Group anticipates that these amendments will not necessitate any changes to the Group's previous accounting practices.

In this connection, it should be noted that the IASB published amendments to IFRS 7 Financial Instruments: Disclosures on 7 October 2010. The amendments bring about a further convergence of the corresponding disclosure obligations under International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (US-GAAP). The amendments to IFRS 7 entail additional disclosure obligations relative to the transfer of financial assets. They are meant to enable the users of financial statements to better understand the risks remaining with the company after such transfers.

Reporting entities are required to apply these amendments in financial years that begin on or after 1 July 2011. Earlier application is permitted. Comparison figures may be omitted in the first year of application. The Phoenix Group is currently reviewing the resulting effects on the presentation of the Group's financial position, liquidity, results of operations and cash flows. The amendments were adopted under EU law on 23 November 2011.

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 2012. These Interpretations relate to matters that were not relevant to the Phoenix Group as of the reporting date.

On 16 June 2011, the IASB published amendments to IAS 19 Employee Benefits and the corresponding amendments to IAS 1 Presentation of Financial Statements. The most important amendment to IAS 19 is that unforeseen changes in pension obligations and plan assets, which are known as actuarial gains and losses, must be recognised directly in other comprehensive income (OCI) in the future. The amendments must be applied as of 1 January 2013. The European Union has not yet adopted these amendments under EU law. Because the Phoenix Group does not maintain any such pension plans, these changes will have no effect on the Group's financial statements and disclosures.

On 19 October 2011, the IASB published IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine. Developed by the IFRS Interpretations Committee, this Interpretation deals with the accounting treatment of the costs of removing overburden in the opening phase of a surface mine. The Committee had been asked to clarify the accounting treatment of such costs because companies had applied different methods in the past. The Interpretation clarifies the conditions under which overburden removal costs can be capitalised as an asset and the method to be applied in measuring such an asset upon initial recognition and in subsequent periods.

This Interpretation must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. The Interpretation has not yet been endorsed by the EU. At the present time, the Phoenix Solar Group does not anticipate that it will have any effect on the Group's accounting practices.

On 20 December 2010, the IASB published amendments to IAS 12 Income Taxes, which entail changes to the scope of application of SIC–21 Income Taxes – Recovery of Revalued, Non-Depreciable Assets.

The amended version provides a partial clarification of the accounting treatment of temporary tax differences associated with the application of the fair value model of IAS 40. In the case of investment property, it is often difficult to determine whether existing differences will reverse through continued use or sale. Therefore, the published amendment specifies that such temporary tax differences will reverse through sale, as a general rule. The amended version must be applied retrospectively in financial years that begin on or after 1 January 2012. It has not yet been adopted under EU law. The Phoenix Group does not anticipate that it will have any effects on the Group's consolidated financial statements.

(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 were authorized for issue on 12 May 2012. The release was granted by the Executive Board and was submitted to the Supervisory Board for 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 2010, 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 44 companies were consolidated, including 11 permanent distribution subsidiaries and 33 project subsidiaries:

Subsidiaries

	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 %

Project companies

	Type of consolidation	Share of equity/ voting rights
SOMI GmbH, Sulzemoos, Germany	Full consolidation	100 %
Exploris GmbH, Sulzemoos, Germany	Full consolidation	100 %
Aktena Solar 1 GmbH & Co.KG, Sulzemoos, Germany	Full consolidation	100 %
Aktena Solar 2 GmbH & Co.KG, Sulzemoos, Germany	Full consolidation	100 %
Aktena Solar 3 GmbH & Co.KG, Sulzemoos, Germany	Full consolidation	100 %
Aktena Solar 4 GmbH & Co.KG¸ Sulzemoos, Germany	Full consolidation	100 %
Aktena Solar 5 GmbH & Co.KG, Sulzemoos, Germany	Full consolidation	100 %
Grundstücksgesellschaft Jocksdorf II GmbH¸ Sulzemoos, Germany	Full consolidation	100 %
Trasse und Umspannwerk Jocksdorf II GmbH & Co. oHG, Sulzemoos, Germany	Full consolidation	100 %
Scarlatti Srl., Eppan an der Weinstrasse, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
Isla Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia ed Ambiente S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia zero Emissione S.r.l., Ragusa, Italy	Full consolidation	51 %
MAS Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
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 %
Batisolaire 3 SAS, Carpiquet, France	Full consolidation	100 %
SP1 d.o.o., Ljubljana, Slovenia	Full consolidation	100 %
FE5 s.r.l., Milan, Italy	Full consolidation	100 %
BCI Kazanlyk Holding EOOD, Kazanlyk, Bulgaria	Full consolidation	100 %
BCI Kazanlyk 1 to 10 EOOD, Kazanlyk, Bulgaria	Full consolidation	100 %

On 17 August 2011, an additional French project company, Batisolaire 3 SAS, was acquired for the purpose of executing a photovoltaic project in the Basse-Normandie region of France. The purchase price is deemed to be the acquired formation capital of EUR 1 thousand, less the results achieved in the year to date up to the acquisition date, in the rounded amount of EUR 0 thousand, and the assumption of net liabilities associated with the acquisition of project rights, in the amount of EUR 145 thousand.

In connection with the expansion of the international power plant business, a Slovenian project company, SP1 d.o.o., was formed on 6 September 2011 for the purpose of executing a photovoltaic project in Slovenia. The formation capital amounted to EUR 8 thousand.

The company TPC Photoenergy srl, Eppan an der Weinstrasse, Italy, which was formed in 2008, was liquidated and struck from the Commercial Register after the execution of an Italian project in September 2011. In connection with the deconsolidation, a deconsolidation result of EUR –13 thousand was recognised in the reporting period. Furthermore, a project company, FE5 s.r.l., was formed in Italy for the purpose of executing a photovoltaic project in Italy. The purchase price is deemed to be the acquired formation capital of EUR 47 thousand, less the results achieved in the year to date up to the acquisition date, in the amount of approximately EUR 1 thousand, and the assumption of net liabilities associated with the acquisition of project rights, in the amount of EUR 577 thousand.

In Autumn of the year a project holding company, BCI Kazankyk Holding EOOD, was acquired for a purchase price of EUR 12 thousand. Shortly afterwards, another ten project companies, BCI Kazanlyk 1 to 10 EOOD, were founded as subsidiaries of the holding company for the realisation of several photovoltaic projects in Bulgaria. The initial capital of the project companies amounted to EUR 2 T each.

In October 2011, the company Exploris GmbH, with its registered head office in Sulzemoos, Germany, was purchased from the subsidiary SOMI GmbH. This sub-subsidiary serves as a project operating company in the power plant business. The acquisition cost amounted to approximately EUR 27 thousand. Exploris GmbH is the managing limited-liability company under German law (GmbH) of the five concurrently formed project companies, Aktena Solar 1 to 5 GmbH & Co.KG, and the real estate property company held by them, Grundstücksgesellschaft Jocksdorf II GmbH, and Trasse und Umspannwerk Jocksdorf II GmbH & Co. oHG, all of which have their registered head offices in Sulzemoos, Germany.

In December, the four Italian project companies, Isla Solar Srl, Energia ed Ambiente Srl, Energia zero Emissione S.r.l. and MAS Solar S.r.l. all from Ragusa in Italy were included in consolidation for the first time. Since 2009 the Phoenix Group has always had the majority of the shares, but without the corresponding voting rights. Changes of certain conditions in the transfer agreement of 2009 shifted the power to control the financial and operating activities of the entities. The changes result from the fact that Phoenix Group is able to designate the management of the participations by controlling the Board of the holding company Scarlatti Srl. As part of the transitional consolidation no significant hidden reserves have been uncovered since the project companies were in a very early stage of project development and conducted no other business activities.

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

Name of company	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2011 k€	Profit/loss 2011 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. Because the Group paid its full capital contribution and did not enter any further agreements to support the business object, it is no longer subject to any corporate-law or contractual obligations to assume liability.

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

Name of company	Total assets 31/12/2011 (HGB) k€	Total liabilities 31/12/2011 (HGB) k€	Income 2011 (HGB) k€	Period profit or loss 2011 (HGB) k€
Phönix SonnenFonds GmbH & Co. KG A1/2 West	360	69	97	47
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	360	69	96	47
Phönix SonnenFonds GmbH & Co. KG A3/4 West	360	69	96	46
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	353	69	91	43
Phönix SonnenFonds GmbH & Co. KG A5/6 West	357	69	95	47
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	355	68	93	46

Name of company	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

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.

Name of company	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2011	Profit/loss 2011
			k€	k€
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, Grünwald, Deutschland	n/a	50 %	300	8

The shares of non-controlling interests 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 revalued 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 revalued 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

Eleven 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 particularly entails the holding and exercise of project rights for the construction of photovoltaic plants. The following project companies were added to the consolidation group in 2011:

- Exploris GmbH, Sulzemoos, Germany
- Aktena Solar 1 GmbH & Co.KG, Sulzemoos, Germany
- Aktena Solar 2 GmbH & Co.KG, Sulzemoos, Germany
- Aktena Solar 3 GmbH & Co.KG, Sulzemoos, Germany
- Aktena Solar 4 GmbH & Co.KG, Sulzemoos, Germany
- Aktena Solar 5 GmbH & Co.KG, Sulzemoos, Germany
- Grundstücksgesellschaft Jocksdorf II GmbH, Sulzemoos, Germany
- Trasse und Umspannwerk Jocksdorf II GmbH & Co. oHG, Sulzemoos, Germany
- Batisolaire 3 SAS, Carpiquet, France
- SP1 d.o.o., Ljubljana, Slovenia
- FE5 s.r.l., Milan, Italy
- BCI Kazanlyk Holding EOOD plus ten additional project entities
- BCI Kazanlyk 1 bis 10 EOOD in Kazanlyk, Bulgaria

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 were generally acquired by way of a shell company, the fair values and carrying amounts as of the date of initial consolidation were calculated as follows:

	Exploris GmbH	**Batisolaire 3 SAS**	**BCI Kazankyk Holding EOOD**	**FE5 s.r.l.**
	k €	**k €**	**k €**	**k €**
Noncurrent assets	0	0	0	0
Current assets	25	146	25	623
Equity	25	1	12	46
Noncurrent liabilities	0	0	0	0
Current liabilities	0	145	13	577

The current assets are composed primarily of cash and cash equivalents, input tax refund claims related to the capital contributions acquired and the start-up losses absorbed in every case. By reason of the fact that these shell companies still do not have significant prior histories, there were no hidden reserves and liabilities to uncover. Any higher purchase price payments rendered in cash always only comprise the transfer costs of external advisors and notaries. If the affiliated companies were included, to the extent possible, in the consolidation group from the beginning of the reporting period, the accumulated revenues of these companies would therefore have been unchanged at EUR 0 thousand and the accumulated profit/loss contributions of these companies would have been likewise unchanged (EUR –1 thousand).

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 revalued 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 fully 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 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 as of 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 ITEMS OF THE STATEMENT OF FINANCIAL POSITION

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 expenditures are not capitalised, but are recognised as expenses in the period when they are incurred, based on respective cause.

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 profit or loss in accordance with IAS 8. Impairment test principles are applied once a year to determine whether impairment losses should be charged against the carrying amounts of intangible assets with indeterminable useful lives; depending on the results of such impairment tests, the corresponding impairment losses are recognised as period expenses.

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 profit or loss 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 (EXCEPT 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 profit or loss. 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 profit or loss.

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 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 as of the reporting date does not cover the production costs, the carrying amount presented in the statement of financial position is written down to the net realisable value.

The expenses for writedowns of trading stock have been recognised in the income statement under the item of “Purchased goods and services”. Writedowns 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 incurred on the purchase of financial instruments (not measured at fair value through profit and loss) are added to the carrying amount of the asset upon initial recognition. Transaction costs incurred on the purchase of financial instruments measured at fair value are recognised immediately 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). Measurement gains or losses are recognised immediately in profit or loss.
- 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 writedowns 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. As a general rule, all financial assets not classified as HtF, HtM or LaR are assigned to this category; 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 profit or loss. 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 profit or loss.
- 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,
- The contracts have expired.

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 gain or loss on disposal is recognised in profit or loss.

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 profit or loss. 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 profit or loss.

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 are presented as a separate line item within equity in the consolidated statement of financial position. Pro-rated losses are charged to the respective non-controlling interests in proportion to their share of Group equity, even if 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 as of 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 profit or loss 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 incurred in the ordinary course of business are not recognised in the statement of financial position; 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 profit or loss.

Current tax assets and current tax liabilities are only netted when one of the Phoenix companies has a legally enforceable 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 profit or loss 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 in the form of 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 legally enforceable 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) UTILISATION OF PROFIT

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 as of the reporting date because the dividend payment is not to be recognised in the statement of financial position.

(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 profit or loss. 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 U.S. 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, items presented in the statement of financial position 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 profit or loss, but directly in the “currency translation reserve” and presented separately in the statement of financial position.

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2011	Average exchange rate in 2011	Exchange rate on reporting date 2010	Average exchange rate in 2010
USD / EUR	1.2949	1.3924	1.3252	1.3275
AUD / EUR	1.2724	1.3476	1.3039	1.4448
JPY / EUR	100.23	111.02	108.53	110.12
OMR / EUR	0.4970	0.5344	0.5083	0.5088
SGD / EUR	1.6815	1.7486	1.7102	1.8088
MYR / EUR	4.1069	4.2485	4.0800	4.2634
SAR / EUR	4.8553	5.220	n/a	n/a
BGN / EUR	1.9552	1.9542	n/a	n/a

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	**2011** **k €**	**2010** **k €**
Components & Systems	152,470	368,412
Power Plants	240,970	267,220
Other	44	44
Total	**393,484**	**635,676**

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 88,159 thousand (PY: EUR 115,906 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 three foreign projects that are in the starting phase.

(3) OTHER OPERATING INCOME

Other operating income	**2011** **k €**	**2010** **k €**
Income from payment of claims for damages	445	275
Remuneration in kind	224	214
Income from reversal of provisions and liabilities	2,799	817
Electricity income	3,117	1,452
Income from disposal of project companies	851	0
Income from disposal of property, plant and equipment	10	3
Income from reversal of writedowns	1,121	86
Income from foreign exchange gains	658	0
Licensing income	15	34
Consulting income	0	333
Other	162	1,634
Total	**9,402**	**4,848**

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 reversal of provisions pertained to credit memos for costs charged to customers in respect of cancelled orders, in the amount of EUR 978 thousand.

The income from foreign exchange gains consisted of income from the translation of transactions denominated in foreign currency to the reporting 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. In the prior year, the result of a sales tax audit (EUR 1,115 thousand) was an important component of other income.

(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	2011 k €	2010 k €
Expenses of purchased goods	361,314	470,481
Expenses of purchased services	69,597	83,891
Total	**430,911**	**554,372**

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	**2011** **k €**	**2010** **k €**
Wages and salaries	24,916	19,082
Expenses of stock option plans	936	1,264
Social security	4,075	3,199
Expenses for pensions and other benefits	65	41
Total	**29,992**	**23,586**

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 financial year 2011, an employer contribution of EUR 65 thousand (PY: EUR 41 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 2 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 ratably over the service period.

In connection with the restructuring plan that had become necessary and was initiated in the fourth quarter of financial year 2011, active workforce reduction measures were required for the first time in the company's history. These measures were conducted in a socially acceptable manner on the basis of mutually agreed severance agreements to the greatest extent. Total expenses of EUR 1,932 thousand were recognized for such severance agreements.

The average number of employees during financial year 2011 is presented in the table below:

Employees (m/f)	**2011**	**2010**
Members of the Executive Board (parent company)	4	5
Permanent employees (m/f) (full-time and part-time)	375	283
Temporary employees	27	25
Total	**406**	**313**

(6) DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to EUR 1,636 thousand in financial year 2011 (PY: EUR 1,094 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	2011 k €	2010 k €
Administrative expenses	14,888	12,081
Selling expenses	13,821	9,784
Operating expenses	2,133	2,344
Other expenses	5,077	1,084
Total	**35,919**	**25,293**

The administrative expenses incurred in financial year 2011 mainly included expenses related to facility management as well as expenses for legal, tax and other advisory services, expenses for temporary and freelance workers and other expenses related to losses on the translation of transactions denominated in currencies foreign to the reporting currency. Expenses from operating leases amounted to EUR 2,446 thousand in financial year 2011 (PY: EUR 2,763 thousand). Most of these expenses were likewise presented as administrative expenses related to facility management.

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, customer consulting services, warehousing, sales offices, the processing of requests for quotes and orders, bid costing, statistics, invoicing, payment reminders and the management of the overall process.

Operating expenses refer to the necessary depletion of assets associated with maintaining the business operations of the Phoenix organisation. In particular, this item included expenses for shareholder information and the annual report, expenses for the annual general meeting, expenses for quality assurance, etc.

Research and development costs in the amount of EUR 99 thousand (PY: EUR 163 thousand) were recognised as operating expenses in financial year 2011.

(8) INCOME FROM ASSOCIATED COMPANIES

Income from associated companies amounted to EUR 27 thousand in financial 2011 (PY: EUR 58 thousand).

(9) FINANCIAL RESULT

The financial result was lower than the prior-year figure by EUR 1,964 thousand. Interest expenses amounted to EUR 4,597 thousand (PY: EUR 2,483 thousand), mainly for short-term financing loans and negative fair values of interest rate derivatives, while interest income amounted to EUR 380 thousand (PY: EUR 231 thousand), mainly on call money accounts. No interest on qualified assets was capitalized, either in financial year 2011 or in the prior year.

(10) INCOME TAXES

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

Income taxes	2011 k €	2010 k €
Current taxes	1,008	8,874
Deferred taxes	– 3,530	1,140
Total	**– 2,522**	**10,014**

The recognised income tax income of EUR 2,522 thousand in financial year 2011 (PY: EUR 10,014 thousand) was EUR 21,213 thousand lower than the expected income tax income of EUR 23,735 thousand (PY: income tax expenses of EUR 9,117 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 income/expenses can be attributed to the following causes:

Reconciliation Statement	2011 k €	2010 k €
Profit before income taxes	– 88,897	34,148
Income taxes calculated by application of theoretical tax rate of 26.7 % (PY: 26.7 %)	– 23,735	9,117
Changes in income tax expenses as compared to the calculated income tax expenses resulting from:		
– Non-period income taxes	359	266
– Tax effect of non-deductible expenses for stock options	251	338
– Tax effect of other non-deductible expenses	365	41
– Tax effect of differing tax rates	– 62	87
– Tax effect arising from the application of tax losses (–) that had not previously been recognised and from the non-recognition of losses (+)	21.252	– 88
– Tax effect of differing tax bases	202	44
– Other differences/ consolidation	– 6	208
Total	**– 2,522**	**10,014**
Effective tax rate	2.84 %	29.3 %

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 to 40 percent.

Income tax expenses and income are broken down as follows:

Income taxes	**2011** **k €**	**2010** **k €**
Current taxes	1,008	8,874
– thereof in Germany	319	8,780
– thereof in foreign countries	689	94
Deferred taxes	– 3,530	1,140
– thereof in Germany	– 3,372	1,866
– thereof in foreign countries	–158	– 726
Total	**– 2,522**	**10,014**

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 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).

Deferred taxes can be attributed to the following items of the statement of financial position:

Deferred taxes by item	**2011** **k €**	**2010** **k €**
Deferred tax assets		
Measurement of derivatives	0	50
Loss carry-forwards capitalised	3,430	1,641
Measurement of provisions	67	167
Other / consolidation	398	134
Total	**3,895**	**1,922**
– thereof current	1,328	1,755
– thereof noncurrent	2,567	167
Deferred tax liabilities		
Internally generated intangible assets	2	2
Property, plant and equipment	42	30
PoC measurement of construction contracts	1,577	2,469
Measurement of inventories	20	602
Other / consolidation	38	133
Total	**1,679**	**3,236**
– thereof current	1,599	3,170
– thereof noncurrent	80	66

In total, deferred taxes of EUR 1,659 thousand (PY: EUR 123 thousand) were netted with each other. All changes in deferred tax were recognised in profit or loss, both in financial year 2011 and in the prior year.

In addition, deferred tax assets of EUR 3,430 thousand (PY: EUR 2,181 thousand) were recognized in respect of tax losses, in the case of temporary differences that are expected to reverse in the future; no

deferred tax assets were recognized initially in respect of tax losses amounting to EUR 82,498 thousand (PY: EUR 65 thousand), which would have to be applied against taxable individual results for the years 2012 to 2014, because the Group is currently in a turnaround phase and the new business plan still needs to be confirmed. The management currently anticipates that deferred tax assets will be recognized in respect of such losses in financial year 2013. As at 31 December 2011 current taxes of EUR 500 thousand (PY: EUR 0 thousand) have been off set by the means of a carry-back of losses. After consolidation measures, deferred tax assets of EUR 2,236 thousand (PY: EUR 1,799 thousand) and deferred tax liabilities of EUR 21 thousand (PY: EUR 3,113 thousand) were recognized as of the reporting date.

The total amount of unrecognised losses was EUR 82,498 thousand (PY: EUR 65 thousand). Loss carry-forwards that can be carried forward for no more than five years were recognized in the amount of EUR 8,996 thousand (PY: EUR 4,158 thousand); loss carry-forwards that can be carried forward for no more than 20 years were recognized in the amount of EUR 3,604 thousand (PY: EUR 1,447 thousand).

As in the prior year, no deferred taxes were recognised for outside basis differences in financial year 2011 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 3,241 thousand were calculated as of 31 December 2011 (PY: EUR 1,815 thousand).

(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 financial year 2011.

Basic earnings per share	2011	2010
Consolidated profit after taxes, in k€	– 86,375	24,134
Average number of shares outstanding (in units)	7,327,700	7,017,008
Basic earnings per share (in €)	**– 11,80**	**3,44**

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).

Diluted earnings per share	2011	2010
Consolidated profit after taxes, in k€	– 86,375	24,134
Average number of shares outstanding (in units)	7,372,700	7,017,008
Correction for potentially diluting shares	0	0
Average number of shares outstanding (including potentially diluting shares)	7,372,700	7,017,008
Diluted earnings per share (in €)	**– 11,80**	**3,44**

As of 31 December 2011, 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 consolidated profit earned in 2011 has been added to the distributable profit as of 31 December 2011. The Executive Board of Phoenix Solar AG proposes that the company not distribute a dividend (PY: EUR 0.35 per share).

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)).

Two projects reached the level of being ready for market development in financial year 2011, so that the costs of those projects were capitalised. One project pertains to a mounting system for roof-top designs for photovoltaic systems and another project pertains to a planning software programme. The useful lives are expected to be 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 2011 or in the previous year.

Significant intangible assets	Carrying amount as of 31/12/2011 k €	Carrying amount as of 31/12/2010 k €	Remaining amortization period
ERP software	3,200	2,376	4 years
"Phoenix" trademark	157	188	5 years
Development expenses	142	194	2 years

In addition, the purchased intangible assets include licensing rights of various vendors of system software and application software products.

(13) GOODWILL

The goodwill of Phoenix Solar Energy Investments AG (EUR 272 thousand), which was acquired effective 15 March 2002 and was merged into Phoenix Solar AG as of 31 December 2011, arose upon initial consolidation.

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	31/12/2011 k €	31/12/2010 k €
Power Plants	272	272
Components & Systems	235	235
Other	26	26
Total	**533**	**533**

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, based on current forecasts that are largely backed by external market development data, which are based on the three-year plan approved by the management and are also used for internal purposes. Key assumptions on the basis of which the recoverable amounts are calculated by the management include forecasts of market volumes, market prices and availabilities of solar modules, inverters and other products related to the company's portfolio, as well as regulatory framework conditions, growth rates and capital costs. The future cash flows expected to be generated by the cash-generating unit according to the three-year plan are discounted to present value by application of a weighted average capital cost rate before taxes of 3.93 percent for the domestic company (PY: 8.01 percent) and 8.17 to 8.86 percent for the foreign companies (PY: 9.57 to 10.84 percent). For purposes of calculating a perpetual annuity, an unchanged growth factor of 1 percent was assumed. 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 2011. Even assuming that the revenues of one of the cash-generating units would be five percent less or that interest rates would be 10 percent higher, no need for impairment losses would arise. The Phoenix Group conducts the annual impairment test of goodwill on the level of the cash-generating units 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)). The Group opted not to present separately the acquisitions and disposals resulting from the change in the consolidation group because such transactions related to shell companies are immaterial for the presentation of the financial position of the entire Group.

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 2011. The unchanged depreciation periods for operational and office equipment range from three to twelve years; for leasehold improvements, depreciation periods of eleven to 15 years are applied, based on the economic useful lives or the shorter, contractually defined lease terms, plus any renewal options.

(15) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in noncurrent assets within the Phoenix group:

	Acquisition or production cost				
2011	**Balance at 01/01/ k€**	**Acquisition in financial year 2011 k€**	**Disposal in financial year 2011 k€**	**Currency translation k€**	**Balance at 31/12/ k€**
Internally generated intangible assets	223	0	0	0	223
Acquired intangible assets	4,440	1,859	35	0	6,264
Goodwill	533	0	0	0	533
Operational and office equipment	3,945	859	117	7	4,694
Fixtures and fittings	1,205	79	0	0	1,284
Total noncurrent assets	**10,346**	**2,797**	**152**	**7**	**12,998**
2010	**01/01/**				**31/12/**
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
Total noncurrent assets	**7,606**	**2,888**	**159**	**11**	**10,346**

(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 2011:

	2011 k €	**2010 k €**
Carrying amount at 01/01	418	404
+ Acquisition	0	0
– Disposal	0	0
– Dividends	– 51	– 44
+ Profit shares	27	58
Carrying amount at 31/12	**395**	**418**

Accumulated amortisation and depreciation						
Balance at 01/01/ k€	Acquisition in financial year 2011 k€	Disposal in financial year 2011 k€	Currency translation k€	Balance at 31/12/ k€	Carrying amounts 31/12/2011 k€	Carrying amounts 31/12/2010 k€
29	27	0	0	56	167	194
1,169	799	34	0	1,929	4,335	3,276
0	0	0	0	0	533	533
1,747	700	79	10	2,378	2,316	2,199
292	110	0	0	402	882	912
3,232	**1,636**	**113**	**10**	**4,765**	**8,233**	**7,114**
01/01/				**31/12/**	**31/12/2010**	**31/12/2009**
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**

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

Aggregated financial information on the associated company	**2011 k €**	**2010 k €**
Assets	631	851
Liabilities	19	5
Revenues	189	142
Equity*	817	846
Total assets	846	851
Profit/loss for the year	**27**	**58**

* 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 financial year 2011, that company had assets of EUR 1,856 thousand (PY: EUR 1,582 thousand), liabilities of EUR 1,555 thousand (PY: EUR 1,285 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. Due to the lack of an effective significant influence, the company is measured at acquisition 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 basically 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.

The remaining amount consisted of security deposits, which have been deposited in favour of Phoenix Group amounting EUR 48 thousand (PY: EUR 42 thousand) with reputable banks at fair market interest rates of 1.5 percent p. a.

(19) INVENTORIES

The inventories break down as follows:

	31/12/2011 k €	31/12/2010 k €
Trading stock	81,304	153,301
Writedown	– 25,393	– 3,928
Net value of trading stock	**55,911**	**149,373**
Work in progress	0	163
Writedown	0	0
Net carrying amount	**0**	**163**
Amount presented in the statement of financial position	**55,911**	**149,536**

The trading stock inventory consisted mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering, which are usually held for less than one full financial year. Of the total trading stock, an amount of EUR 0 thousand (PY: EUR 33,117 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 2011, the carrying amount of trading stock measured at net realisable value less costs to sell amounted to EUR 58,401 thousand (PY: EUR 45,567 thousand). The expenses of the corresponding writedowns amounted to EUR 35,521 thousand (PY: EUR 3,631 thousand).

The carrying amount of inventories recognised as period expenses amounted to EUR 361,314 thousand (PY: EUR 470,481 thousand).

The inventories presented in the statement of financial position 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 99,436 thousand (PY: EUR 120,790 thousand). Most of these receivables were related to projects in France, Greece and Singapore. Contract revenues of EUR 90,424 thousand (PY: EUR 116,138 thousand), contracts costs of EUR 81,809 thousand (PY: EUR 105,951 thousand) and profits of EUR 8,615 thousand (PY: EUR 10,547 thousand) were recognised. The profits included foreign currency effects in the amount of EUR 142 thousand (PY: EUR 77 thousand). Furthermore, liabilities under long-term construction projects were recognized in the amount of EUR 1,749 thousand (PY: EUR 267 thousand), mainly for a U.S. project. Losses of EUR 1,060 thousand (PY: EUR 47 thousand) were recognised as expenses in respect of contracts that are expected to conclude with a negative profit margin.

Down payments of EUR 84,045 thousand (PY: EUR 38,563 thousand) were collected on account of contracts and other down payments of EUR 3,205 thousand (PY: EUR 24,302 thousand) were requested on account of contracts.

In consideration of the requested and recognisable down payments and partial invoices, the presented amount of EUR 14,995 thousand (PY: EUR 82,227 thousand) breaks down as follows:

	31/12/2011 k €	31/12/2010 k €
Receivables under long-term construction contracts after deduction of partial invoices based on stage of completion	13,115	57,925
Plus requested and recognisable partial invoices	1,880	24,302
Amount presented in the statement of financial position	**14,995**	**82,227**

The borrowing costs of EUR 2,116 thousand (PY: EUR 2,001 thousand) recognised in connection with long-term contract construction were capitalised as project costs; an interest rate of 3.6 to 4.3 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)).

		Expected receipt of payment			
As of 31/12/2011	Carrying amount k€	Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
Receivables under long-term construction contracts	14,995	1,010	520	13,465	0
As of 31/12/2010					
Receivables under long-term construction contracts	82,227	285	1,552	80,390	0

Receivables under long-term construction contracts are secured by means of the obligatory contractor's lien and the customarily agreed down payments for milestones, and by the customary financing commitments of the customer-financing banks, bank guarantees and where applicable, security deposits. Furthermore, customary retention-of-title arrangements apply to unpaid materials.

(22) TRADE RECEIVABLES

The trade receivables break down as follows:

Trade receivables	31/12/2011 k €	31/12/2010 k €
Gross receivables	37,050	33,822
Less writedowns	– 5,453	– 2,682
Amount presented in the statement of financial position	**31,597**	**31,140**

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 relative to payment dates, writedowns charged against receivables that are expected to be uncollectible and writedowns charged on a portfolio basis were unavoidable.

In the table below, the maturity structure of receivables is presented without writedowns; 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 writedowns at the reporting date:

			Not written down and due for payment at the reporting date			
As of 31/12/2011	Total k€	Neither written down nor due for payment k€	Since fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	Since more than 360 days k€
Trade receivables	31,597	0	11,939	12,801	6,857	0
As of 31/12/2010						
Trade receivables	31,140	7,722	14,854	5,961	2,603	0

The writedowns charged against trade receivables attributable to the measurement category “Loans and Receivables” showed the following development in financial year 2011:

	2011 k €	2010 k €
Writedowns at 01/01	2,682	1,861
Foreign exchange differences	0	0
Utilisation	– 78	– 121
Reversal	– 514	0
Addition	3,363	942
Writedowns at 31/12	**5,453**	**2,682**

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:

	2011 k €	2010 k €
Expenses for the charge-off of receivables	347	21
Income from recovery of charged-off receivables	92	0

Expenses for the charge-off of receivables are recognised at the time when the receivable is deemed to be definitively uncollectible. Final 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

Phoenix Solar AG extended an interest-bearing loan of EUR 650 thousand (PY: EUR 642 thousand) maturing at the end of 2012 to the subsidiary SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. 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 38 thousand in financial year 2011 (PY: EUR 32 thousand).

The remaining amount consisted of security deposits, which have been deposited in favour of Phoenix Group AG with reputable banks at fair market interest rates.

b) Current other financial assets

The current other financial assets break down as follows:

Current other financial assets	31/12/2011 k €	31/12/2010 k €
Supplier credits	1,579	2,876
Other receivables	3,056	1,469
Advance payments	1,827	866
Debit balances in supplier accounts	4,028	427
Receivables under financial transfer operations	53	180
Derivatives	0	0
Other	86	123
Total	**10,629**	**6,816**

The supplier credits consisted mainly of monetary credits granted as compensation for defective trading stock. Current financial assets of this kind are secured by retentions of title.

The current other receivables consisted mainly of accrued electricity and maintenance revenues, in the amount of EUR 3,016 thousand (PY: EUR 1,436 thousand).

c) Other financial asset

The expected payment receipts of other financial assets are presented in the tables that follow:

		Expected receipt of payment			
As of 31/12/2011	Carrying amount k€	Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
Financial assets	11,436	4,250	3,314	3,839	33
Due in one year or less	10,629	4,250	3,314	3,065	0
Due in more than one year	807	0	0	774	33
As of 31/12/2010					
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

(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.

2011	Measurement category as per IAS 39	Carrying amounts k€	Total carrying amounts within the scope of IFRS 7 k€	Fair value k€
Other investments	AfS	160	160	160 [1]
Noncurrent receivables	LaR	498	498	498
Other noncurrent financial assets	LaR	806	806	806
Liabilities under long-term construction contracts	LaR	14,995	14,995	14,995
Trade receivables	LaR	31,597	31,597	31,597
Other current financial assets	LaR	10,629	10,629	10,629
Derivatives not used for hedging	HfT	0	0	0
Cash and cash equivalents	LaR	6,412	6,412	6,412
Total assets		**64,937**	**64,937**	**64,937**
Noncurrent financial liabilities	AmC	74	74	74
Current financial liabilities	AmC	24,726	24,726	24,726
Total financial liabilities		**24,800**	**24,800**	**24,800**
Liabilities under long-term construction contracts	AmC	1,749	1,749	1,749
Trade payables	AmC	24,531	24,531	24,531
Other financial liabilities		4,038	4,038	4,038
Derivatives not used for hedging	HfT	0	0	0
Total financial liabilities		**30,318**	**30,318**	**30,318**

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.”

[1] 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.

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 [1]
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
Total assets		**131,344**	**131,344**	**131,344**
Noncurrent financial liabilities	AmC	37	37	37
Current financial liabilities	AmC	52,642	52,642	52,642
Total financial liabilities		**52,679**	**52,679**	**52,679**
Liabilities under long-term construction contracts	AmC	267	267	267
Trade payables	AmC	84,538	84,538	84,538
Other financial liabilities	AmC	6,859	6,859	6,859
Derivatives not used for hedging	HfT	185	185	185
Total financial liabilities		**91,849**	**91,849**	**91,849**

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.”

[1] 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 not used for hedging were already measured at fair value.

The expenses, income, losses and gains of financial instruments can be attributed to the following categories:

2011	LaR k €	AmC k €	AfS k €	HfT k €	Gesamt k €
Interest income	380	0	0	0	380
Interest expenses	0	– 4,597	0	0	– 4,597
Changes in fair value	0	0	0	202	202
Expenses of impairment losses	– 2,849	0	0	0	– 2,849
Income from reversals of impairment losses	0	0	0	0	0
Gains on disposal	92	0	0	37	129
Losses on disposal	– 347	0	0	0	– 347
Net result	**– 2,724**	**– 4,597**	**0**	**239**	**– 7,082**

2010	LaR k €	AmC k €	AfS k €	HfT k €	Gesamt 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	200
Losses on disposal	– 21	0	0	– 17	– 38
Net result	**– 2,464**	**– 2,291**	**0**	**203**	**– 4,744**

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 7,631 thousand (PY: EUR 18,015 thousand) consisted mainly of foreign sales tax receivables in the amount of EUR 6,135 thousand (PY: EUR 14,780 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	31/12/2011 k €	31/12/2010 k €
Cash on hand	28	5
Cash in banks	6,384	9,583
Total	**6,412**	**9,588**

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 rate 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 2011 were between 0.1 percent and 0.7 percent (PY: 0.1 percent and 0.9 percent).

(27) EQUITY

For information on changes in equity, please refer to the Statement of Changes in Equity.

As of 31 December 2011, the share capital amounted to EUR 7,372.7 thousand (PY: EUR 7,372.7 thousand), divided into 7,372,700 (PY: 7,372,700) non-par bearer shares (common shares) and was fully paid-in at the reporting date for the consolidated financial statements.

By resolution of the annual general meeting of 14 July 2011, the Executive Board was authorized to annul, to the extent it will not have been utilised, the authorisation granted to the Executive Board by the annual general meeting of 16 June 2010, which was limited in time until 15 June 2015, to increase the company's share capital, with the consent of the Supervisory Board, by an amount of up to EUR 3,351,250.00 by issuing new bearer shares in exchange for cash and/or in-kind capital contributions, on one or more occasions (Authorised Capital 2010, which still amounts to EUR 2,681,050.00 after partial utilization). In addition, the Executive Board was authorised to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,686,350.00 by issuing up to 3,686,350 new bearer shares in exchange for cash and/or in-kind capital contributions on one or more occasions in the time until 13 July 2016 (Authorised Capital 2011). A subscription right must be granted to the shareholders, as a general rule. The new shares may also be underwritten by one or more banks, with the obligation to offer them to the shareholders for subscription.

In this connection, the Executive Board was authorized to decide on the exclusion of the shareholders' subscription right, with the consent of the Supervisory Board. With the consent of the Supervisory Board, the Executive Board may exclude the subscription right,

a) In order to issue the new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock exchange price of the company's shares with the same features. However, this authorization is subject to the condition that the shares to be issued by virtue of this authorization under exclusion of the subscription right pursuant to Sections 203 (1), 186 (3) (4) of the German Stock Corporations Act do not exceed a proportional amount of share capital totalling ten percent of share capital, either at the time when it takes effect or (if the corresponding amount is less) at the time when this authorization is exercised; the proportional amount of share capital attributable to shares that are sold during the term of this authorization pursuant to Sections 71 (1) (8) (5), 186 (3) (4) of the German Stock Corporations Act, and the proportional amount of share capital attributable to shares that have been or will be issued to service warrant or conversion rights or to fulfil warrant or conversion obligations under bonds shall be applied to this maximum limit of ten percent of share capital, provided that the corresponding bonds are issued during the term of this authorization under exclusion of the subscription right, by analogous application of Section 186 (3) (4) of the German Stock Corporations Act;

b) In order to conduct capital increases in exchange for in-kind capital contributions, particularly for the purpose of acquiring companies, parts of companies and/or investments in companies. This authorization is restricted to the extent that the number of shares issued under exclusion of the subscription right after the exercise of this or another authorization granted by the annual general meeting (including the authorization set forth under letters a and c of this authorization) does not exceed twenty percent of the share capital, either at the time when this authorization takes effect or (if the corresponding amount is less) at the time of exercising this authorization;

c) For fractional amounts. The Executive Board is authorized to establish, with the consent of the Supervisory Board, the further particulars of the respective capital increase and the terms and conditions of the share issue. The Supervisory Board is authorized to reformulate the articles of incorporation to reflect the extent of the capital increase and after expiration of the authorization period.

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 in financial year 2010 of 1,800 stock options issued in 2007 was recognized; no stock options were exercised in 2011. An amount of EUR 936 thousand was recognized as expenses of granted stock options in financial year 2011.

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 340,350 stock options were issued in five 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, 98,450 stock options expired due to resignations and 18,000 were exercised. With the Annual General Meeting as of 14 July 2011 the stock option plan has been finished followed by a cancellation of the contingent capital accordingly.

Under Agenda Item II, the annual general meeting of 14 July 2011 adopted the resolution on the utilisation of the accumulated distributable profit of Phoenix Solar AG from financial year 2010 for the distribution of a dividend of EUR 0.35 per share. A total amount of EUR 2,581 thousand (PY: EUR 1,341 thousand) was paid to shareholders as a dividend in respect of the dividend-qualifying share capital of EUR 7,372.7 thousand.

The accumulated other comprehensive income underwent the following changes in financial year 2011:

	k €
Balance at 01/01/2011	71,453
Dividend distribution	– 2,581
Currency difference	348
Consolidated loss for 2011	– 87,007
Balance at 31/12/2011	**– 17,787**

The non-controlling interests in consolidated equity presented in the statement of financial position are related to the direct investments in Phoenix Solar Pte Ltd., Singapore, and Phoenix Solar L.L.C., Muscat, Oman, and the indirect 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 as precisely as possible;
- Monitoring the equity base; and
- Assuring the company's status as a going concern.

The capital managed by this means is book 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 was fulfilled in financial year 2011, in accordance with the covenants. As a result of project delays and the rapid erosion of module prices, the "interest coverage ratio" covenant was temporarily breached in the second quarter. In connection with the negotiation of a waiver, the costs of which (waiver fee) are charged to the borrower, as is customary in such cases, the adjustments of lending terms stipulated in the loan agreement were performed in such a way that, first of all, the premature renewal of the syndicated loan agreement until 30 November 2012 was agreed on 1 July 2011, and secondly, the "interest coverage ratio" was suspended until the spring of 2012. The terms stipulated in the waiver caused a slight increase in the funding costs of the Phoenix Group for the subsequent period, compared to the original syndicated loan agreement. The significant deterioration of the company's business and financial performance in the third quarter led to a renewed breach of covenant as of 30 September 2011, which ultimately necessitated a fundamental revision of the syndicated loan agreement. The short-term financing of Phoenix Solar AG was assured with the help of a waiver and a moratorium on the part of the financing banks. In connection with the moratorium, the company agreed to the preparation of an expert opinion on the company's turnaround prospects, which was submitted to all financing partners in mid-December 2011. The expert opinion certified that the business model of Phoenix Solar AG is viable. The restructuring concept set out in the expert report entails far-reaching changes in the company's organizational structure, processes and corporate governance mechanisms. The restructuring concept also entails significant adjustments of capacities and cost structures, without altering the Group's fundamental strategic direction, however. The liquidity requirements determined as part of the restructuring concept were stipulated as new contractual credit facilities under the moratorium, so that the negotiations initiated for the purpose of raising new funding for the Group were brought to a successful conclusion with the signing of a new syndicated loan agreement on 11 May 2012.. The new syndicated credit facility with a volume of EUR 100,576 thousands is available until 31 March 2014. The syndicated loan is divided into a facility for cash credits in the amount of EUR 55,002 thousand and a facility of EUR 45,574 thousand for surety credits, letters of credit and guarantees. In addition, a temporary back-up line amounting to EUR 12,000 thousand which can be taken both by guarantee facility as well as cash advance until 31 March 2014. Furthermore there are additional surety

credits, letters of credit and guarantees on a bilateral basis to the amount of EUR 22,243 thousand, of which EUR 8,830 thousand are limited until 31 March 2014 while the rest, amounting to EUR 13,413 thousand, is unlimited.

The results were as follows:

	31/12/2011 k €	31/12/2010 k €
Equity	54,806	142,445
Total assets	143,903	313,307
Equity ratio	38.1 %	45.5 %

Due to the negative EBIT, the Group achieved an interest coverage ratio of 0 at 31 December 2011 (PY: 20).

(28) FINANCIAL LIABILITIES

Financial liabilities are presented in the following items of the statement of financial position:

Financial liabilities	**31/12/2011** **k€**	**31/12/2010** **k€**
Noncurrent financial liabilities (due in more than one year)	74	37
Current financial liabilities (due in one year or less)	24,726	52,642
Total	**24,800**	**52,679**

The current financial liabilities were composed almost exclusively of drawdowns under the syndicated loan made available to the company. It is expected they will be repaid 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			
As of 31/12/2011	**Carrying amount** **k€**	**Fewer than 30 days** **k€**	**Between 31 and 90 days** **k€**	**Between 91 and 360 days** **k€**	**More than 360 days** **k€**
Financial liabilities	24.800	7.726	17.039	18	17
As of 31/12/2010					
Financial liabilities	52.679	52.635	1	6	37

The noncurrent financial liabilities consist of the 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 per annum.

The loan is secured by rights in rem.

(29) PROVISIONS

The provisions break down as follows:

Noncurrent provisions	Balance at 01/01/2011 k€	Reclassi-fication k€	Utilisation k€	Reversal k€	Compound-ing k€	Addition k€	Balance at 31/12/2011 k€
Warranty provisions	1,773	– 608	237	0	54	599	1,581
Site restoration provisions	142	0	0	0	7	0	149
Other	281	0	0	0	5	436	722
Total	**2,196**	**– 608**	**237**	**0**	**66**	**1,035**	**2,452**
Current provisions							
Warranty provisions	818	608	300	510	19	23	658
Litigation and arbitration costs	122	0	25	0	0	1,350	1,447
Other	753	0	753	0	0	7,756	7,756
Total	**1,693**	**608**	**1,078**	**510**	**19**	**9,129**	**9,861**

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 3 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. The other current provisions were mainly related to anticipated losses on foreign projects (EUR 6,300 thousand) and losses on inventories (EUR 759 thousand). 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 statement of financial position 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	**31/12/2011 k €**	**31/12/2010 k €**
Deferred sales commissions	942	1,023
Purchase price obligations	812	812
Deferred revenues	433	26
Commitments to former shareholders	313	157
Credit balances in customer accounts	527	933
Other	1,011	236
Total	**4,038**	**3,187**

As in the previous year, no financial liabilities such as interest rate swaps classified as „held for trading", were recognised.

The stated purchase price obligations pertain to contingent purchase price elements established in connection with the acquisition of Italian project companies in 2009.

The obligations to former shareholders consist of obligations of individual subsidiaries that were not settled in the time from the acquisition date to the reporting date.

Other non-financial liabilities	**31/12/2011 k €**	**31/12/2010 k €**
Sales tax liabilities	3,982	8,432
Liabilities under wage tax and social security	557	506
Personnel-related liabilities	5,803	4,940
Liabilities under advance payments received	3,180	2,978
Other	241	48
Total	**13,763**	**16,904**

The personnel-related liabilities pertain to the following matters:

Personnel-related liabilities	**31/12/2011 k €**	**31/12/2010 k €**
Liabilities under current employment contracts	15	3
Liabilities under bonus commitments	2,975	3,420
Liabilities for overtime and/or vacation claims	1,112	1,022
Liabilities for severance payments	1,463	298
Other	238	197
Total	**5,803**	**4,940**

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 348 thousand (PY: EUR –38 thousand). No income taxes were incurred in respect of other comprehensive income/expenses (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 positive effects on the cash flow from operating activities resulted from the decrease in inventories (EUR 71,920 thousand) and the work in connection with the project business (EUR 67,232 thousand). Furthermore, non-cash writedowns on inventories in the amount of EUR 21,706 thousand were also added to this figure. Negative effects on the cash flow from operating activities resulted from the payments made as of the reporting date to settle liabilities to suppliers of trading stock and purchased services, in the amount of EUR 58,252 thousand, and from the payments made to finance operating activities, in the amount of EUR 4,098 thousand.

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 operating activities in financial year 2011 by means of drawdowns under the syndicated working capital credit facility (see Notes (28) and (39)). The only financing activity that led to a cash outflow in financial year 2011 was the payment of the dividend for financial year 2010, as resolved by the annual general meeting of 14 July 2011.

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all the cash and cash equivalents presented in the statement of financial position, 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 21,706 thousand (PY: EUR 3,631 thousand), personnel expenses related to the stock option plan in the amount of EUR 936 thousand (PY: EUR 1,264 thousand), appropriations to writedowns of receivables in the amount of EUR 2,939 thousand (PY: EUR 20 thousand), adjustments to the fair value of derivative assets and liabilities in the amount of EUR –135 thousand (PY: EUR 185 thousand) thousand, and investments in non-current assets, when the payment date for such investments is after the reporting date.

F. OTHER DISCLOSURES

(34) SEGMENT REPORT

OPERATING SEGMENTS

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 below:

Financial Year 2011	Power Plants k€	Components & Systems k€	Other k€	Consoli-dation k€	Group k€
Segment profit or loss statement					
External revenues	152,470	240,970	44	0	393,484
Revenues between the segments	0	0	0	0	0
Segment revenues	**152,470**	**240,970**	**44**	**0**	**393,484**
Segment profit or loss	– 30,166	– 54,635	94	0	– 84,707
Income from associated companies	27	0	0	0	27
EBIT					– 84,680
Financial result					– 4,217
Consolidated profit before taxes					– 88,897
Income tax expenses					2,522
Profit/loss before non-control-ing interests					**– 86,375**
– thereof non-controlling interests in profit or loss					632
– thereof consolidated profit/loss for the period					– 87,007
Other information					
Capital expenditures	1,081	1,716	0	0	2,797
Depreciation and amortisation	639	997	0	0	1,636
Non-cash expenses	9,045	17,222	0	0	26,267
Non-cash income	2,790	1,215	0	0	4,005
Assets					
Segment assets	36,969	75,236	0	0	112,205
Shares in associated companies	395	0	0	0	395
Non-assigned assets					31,303
Consolidated assets					**143,903**

Financial Year 2010	Power Plants k€	Components & Systems k€	Other k€	Consoli-dation k€	Group k€
Segment profit or loss statement					
External revenues	267,220	368,412	44	0	635,676
Revenues between the segments	0	0			0
Segment revenues	**267,220**	**368,412**	**44**	**0**	**635,676**
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/loss before non-controlling interests					**24,134**
– thereof non-controlling interests in profit or loss					19
– thereof consolidated profit/loss for the period					24,153
Other information					
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
Assets					
Segment assets	107,321	192,077	1	0	299,399
Shares in associated companies	418	0	0	0	418
Non-assigned assets					13,490
Consolidated assets					**313,307**

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 90,424 thousand as of the reporting date (PY: EUR 116,138 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 can be said of 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 writedowns and changes in the fair value of options; non-cash expenses include the recognition of writedowns 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.

The revenues generated with external customers are assigned to the presented regions on the basis of delivery addresses or project locations.

Noncurrent assets are assigned on the basis of the companies' registered head offices.

The Group's revenues were divided among the following regions:

	2011 k €	2010 k €
Germany	168,490	471,199
EU excluding Germany	187,747	162,230
Other	37,247	2,247
Total	**393,484**	**635,676**

Furthermore, noncurrent assets were divided among the regions as follows:

	31/12/2011 k €	31/12/2010 k €
Germany	9,074	7,802
EU excluding Germany	335	496
Other	115	122
Total	**9,524**	**8,420**

(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 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 (PY: EUR 29 thousand) in financial year 2011.

Disclosures concerning shareholdings of directors and officers:

Executive Board	**31/12/2011 No. of shares**	**31/12/2010 No. of shares**
Dr. Andreas Hänel	231,200	227,200
Dr. Bernd Köhler (appointed 01/12/2011)	–	–
Dr. Murray Cameron	69,750	69,750
Sabine Kauper (resigned 31/12/2011)	190	190
Ulrich Reidenbach (resigned 31/01/2012)	216	216
Total holdings of Executive Board members	**301,356**	**297,356**

Supervisory Board	**31/12/2011 No. of shares**	**31/12/2010 No. of shares**
J. Michael Fischl	–	–
Prof. Dr. Klaus Höfle	1,575	1,575
Dr. Patrick Schweisthal	–	–
Prof. Dr. Thomas Zinser	–	–
Oliver Gosemann	300	300
Dr. Torsten Hass	400	400
Total holdings of Supervisory Board members	2,275	**2,275**

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

Guarantees and other commitments result 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 6,324 thousand (PY: EUR 5,652 thousand) under various rental and lease agreements. Of this total, an amount of EUR 1,521 thousand (PY: EUR 1,085 thousand) was due in less than one year, EUR 2,590 thousand (PY: EUR 2,336 thousand) between one and five years and EUR 2,213 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 18,644 thousand (PY: EUR 48,299 thousand). The firm orders for noncurrent assets amounted to EUR 55 thousand (PY: EUR 105 thousand).

Under master agreements with manufacturers of photovoltaic modules, purchase obligations arise until 2014 for material purchases for the Group. There are obligations with one solar panel supplier for a total contract amount of 160 MW This purchase commitment depends on volume and market conditions plus minimum order quantities in 2012 in the amount of 10 MW, for 2013 in the amount of 25 MW and for 2014 agreed in principle on the remaining volume, i.e. the difference between the minimum order quantities and the total volume. To meet market conditions a pricing scheme is used that opens Phoenix Solar Group the possibility of releasing quantities by placing demands at arm's length conditions. Should the module manufacturer reject the call, Phoenix Solar Group is allowed to set off the amounts on the outstanding request contingent of the Master Agreement.

(39) RISK MANAGEMENT SYSTEM

Phoenix Solar AG 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 2011, the Group disposed of forward exchange deals with a volume of EUR 0 thousand (PY: EUR 0 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 2011, 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 2010: higher by EUR 0 thousand or lower by EUR 0 thousand, respectively). The hypothetical profit effect results from the currency sensitivities of the euro to the Japanese yen and of the euro to the U.S. 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 2011, the financial result and the fair value of hedging instruments would have been higher by EUR 10 thousand or lower by EUR 0 thousand, respectively (31 December 2010: higher by EUR 173 thousand or lower by EUR 228 thousand, respectively).

DEFAULT RISK

The Phoenix Group attaches great importance to the risk of default on receivables. The methods employed to manage this risk are targeted to the creditworthiness of contractual partners, in that the Group attempts to assess their creditworthiness and to limit or prevent losses on receivables on this basis. International credit agencies are consulted to ensure the objective evaluation of contract partners. The creditworthiness of contract partners is verified at regular intervals of time; in the event of deteriorated creditworthiness, the contractual terms and conditions are adjusted accordingly. The measures initiated in such cases include the reduction of credit limits granted to customers or the requirement that customers provide advance payments or alternative security such as bank guarantees, escrow accounts, etc. In addition, the Group engages in active receivables management to closely monitor the market behaviour of contract partners and to issue a warning when the payment behaviour of a given contract partner worsens.

The Group is exposed to default risk primarily in connection with its trade receivables. The amounts presented in the statement of financial position are net of writedowns for tentatively uncollectible receivables; such writedowns 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 statement of financial position (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

To avoid liquidity risk within the Phoenix Group, which is defined as an inability of the Group to fulfil existing payment obligations with respect to the amounts and temporal structure without restriction and/or on time, the Group prepares a cash flow forecast on the basis of a three-year business plan approved by the Management. Based on the cash flow forecast, the Corporate Treasury Department prepares a detailed one-year capital requirements plan, which is then used to prepared weekly forecasts of the Group's liquidity situation. By that means, financial risks can be detected at an early stage and measures can be taken relative to financing and investment requirements (dispositive liquidity risk management). To accelerate the availability of short-term liquidity within the Phoenix Group, cash pool agreements were concluded with some European subsidiaries already in financial year 2010.

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 Fürstenfeldbruck. In addition, the Group has entered into bilateral guarantee credit agreements of indefinite duration for a total volume of EUR 42,500 thousand. At the beginning of the financial year, the credit facility amounted to EUR 192,500 thousand, in principle. As a result of project delays and the rapid erosion of module prices, the "interest coverage ratio" covenant was temporarily breached in the second quarter.

In connection with the negotiation of a waiver, the costs of which (waiver fee) are charged to the borrower, as is customary in such cases, the adjustments of lending terms stipulated in the loan agreement were performed in such a way that, first of all, the premature renewal of the syndicated loan agreement until 30 November 2012 was agreed on 1 July 2011, and secondly, the "interest coverage ratio" was suspended until the spring of 2012. The terms stipulated in the waiver caused a slight increase in the funding costs of the Phoenix Group for the subsequent period, compared to the original syndicated loan agreement. The significant deterioration of the company's business and financial performance in the third quarter led to a renewed breach of covenant as of 30 September 2011, which ultimately necessitated a fundamental revision of the syndicated loan agreement. The short-term financing of Phoenix Solar AG was assured with the help of a waiver and a moratorium on the part of the financing banks. In connection with the moratorium, the company agreed to the preparation of an expert opinion on the company's turnaround prospects, which was submitted to all financing partners in mid-December 2011. The expert opinion certified that the business model of Phoenix Solar AG is viable. The restructuring concept set out in the expert report entails far-reaching changes in the company's organizational structure, processes and corporate governance mechanisms. The restructuring concept also entails significant adjustments of capacities and cost structures, without altering the Group's fundamental strategic direction, however. The liquidity requirements determined as part of the restructuring concept were stipulated as new contractual credit facilities under the moratorium, so that the negotiations initiated for the purpose of raising new funding for the Group were brought to a successful conclusion with the signing of a new syndicated loan agreement on 11 May 2012. The new syndicated credit facility with a volume of EUR 100,576 thousand is available until 31 March 2014. The syndicated loan is divided into a facility for cash credits of EUR 55,002 thousand and a facility of EUR 45,574 thousand for surety credits, letters of credit and guarantees. In addition, a temporary back-up line was agreed, amounting to EUR 12,000 thousand which can be taken both by guarantee facility as well as cash advance, until 31 March 2014. Furthermore there are additional surety credits, letters of credit and guarantees on a bilateral basis to the amount of EUR 22,243 thousand, of which EUR 8,830 thousand are limited to 31 March 2014 while the rest, amounting to EUR 13,413 thousand, is unlimited.

In connection with the credit facility funds made available to the Group, the Corporate Treasury Department is charged with the task of monitoring and assuring compliance with the syndicated loan agreement covenants, for purposes of structure liquidity risk management.

(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 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 98,450 of those stock options had expired due to resignations and 18,000 had been expired. As of the reporting date, therefore, there remained 223,900 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 (2011)	SOP 2006 (2010)	SOP 2006 (2009)	SOP 2006 (2008)	SOP 2006 (2007)
Issue date	06/05/2011	07/09/2011	08/09/2010	10/09/2008	10/09/2007
Valuation date	06/05/2011	07/09/2011	08/09/2010	10/09/2008	10/09/2007
Stock exchange price of the company's share at the valuation date	19.52 €	28.70 €	36.40 €	43.46 €	18.90 €
Vesting period	2 years	2 years	2 years	2 years	2 years
Stock option life (including vesting period)	7 years	7 years	7 years	7 years	7 years
Exercise price	20.44 €	28.75 €	35.11 €	46.39 €	19.32 €
Risk-free interest rate	2.11 %	0.87 %	2.95 %	4.04 %	4.09 %
Volatility	57.75 %	63.82 %	64.83 %	61.35 %	66.33 %
Annual dividend per share	0.30 €	0.20 €	0.25 €	0.20 €	0.10 €
Due date of dividends (assumption)	approx. 15 June of every year				
No. of simulations conducted	10,000,000 in every case				

- **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 and V, 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, an 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 2010 (Tranche III), from 1 July 2007 to 4 October 2011 (Tranche IV) and from 9 May 2011 (Tranche V). The expected volatility is based on the average of the 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) and EUR 8.323 (Tranche V) at the grant date.

The stock options showed the following development in financial year 2011:

	Tranche IV SOP 2006 (2011)	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total numer
Stock options at 01/01/2010			86,100	72,000	10,800	168,500
Granted in 2010		135,000	0	0	0	135,000
Exercised in 2010				0	– 1,800	– 1,800
Expired during the term in 2010		– 9,000	– 14,100	– 13,500	0	– 36,600
Stock options at 31/12/2010-		**126,000**	**72,000**	**58,500**	**9,000**	**265,500**
Stock options at 31/12/2010–01/01/2011						
Granted in 2011	9,500	0	0	0	0	9,500
Exercised in 2011			0	0	0	0
Expired during the term in 2011		– 24,600	– 9,000	– 17,500	0	– 51,100
Stock options at 31/12/2011	**9,500**	**101,400**	**63,000**	**41,000**	**9,000**	**223,900**

For Tranche I, the average weighted share price upon first-time exercise of the stock options was EUR 38.61 in 2010 and EUR 39.45 in 2009.

The expense of share-based payment forms in financial year 2011 was EUR 936 thousand (PY: EUR 1,265 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 SALES OFFICER

The Chief Sales Officer of Phoenix Group, Ulrich Reidenbach, left the Company on 31 January 2012. His duties were assumed by Dr. Andreas Hänel.

PLANNED WITHDRAWAL FROM THE AUSTRALIAN PHOTOVOLTAIC MARKET SUCCESSFULLY COMPLETED

Before the statements were finalised, the Austrailan subsidiary was closed down as planned during the first quarter of 2012 due to the Group's withdrawal from the PV market in Austraila.

LONG-TERM PURCHASE CONTRACT FOR MODULES SUCCESSFULLY RENEGOTIATED

In February 2012, the cooperation with one of our most important suppliers was extended to 31 December 2014. In the course of this, the existing purchase commitment became almost completely flexible; a pricing scheme was agreed under which the Phoenix Group will face competitive prices and conditions. The agreement will reduce the risk of inventory devaluation because fixed purchase quantities at fixed points in time are no longer foresen.

POSTPONED PUBLICATION

In an ad-hoc announcement dated 2 April 2012, the Company stated that, due to massive reductions in solar power subsidies in certain key markets of Phoenix Solar AG, it had become necessary, in the few weeks before, to revise the restructuring plan presented to the financing banks in December 2011, which also contained a business plan for the next few years. As a result, the financing negotiations conducted by Phoenix Solar AG (ISIN DE000A0BVU93, Prime Standard segment of the Frankfurt Stock Exchange) were delayed. The moratorium agreements adopted with the syndicate banks, as well as other bilateral lenders, guarantors and trade credit insurers, were extended at the end of March, in order to continue the financing negotiations on the basis of the revised restructuring plan. For that reason, the publication of the Annual Report 2011, which had been planned for 25 April 2012, was postponed tentatively for a few weeks.

CONTINUATION OF THE KAZANLAK PROJECT

On 10 April 2012, Phoenix Solar signed an agreement with a major German company and manufacturer of solar modules for the (at least partial) execution of the Kazanlak project in Bulgaria. Because no investor could be found for this solar power farm in 2011, Phoenix Solar AG discontinued the project and charged appropriate impairment losses as of year-end 2011. Under the provisions of the contract that has since been signed, Phoenix Solar will assume no responsibility for the sale of the property, but will instead build, for account of the customer, a part of the solar farm that had originally been planned to comprise an output of 50 MWp, and the customer's solar modules will be used for that purpose. Construction will be performed on the basis of bridge financing extended by the customer, based on interim progress milestones. The customer will also acquire a portion of the project rights for an appropriate fee. Thus, this contract will compensate a portion of the loss recognized by Phoenix Solar AG in 2011. Furthermore, the current plan is fundamentally different from the originally planned concept for commercializing the project, which will also reduce the execution risks for Phoenix Solar considerably.

REFINANCING AGREEMENT WITH LOAN SYNDICATE SUCCESSFUL

On 11 May 2012 a new syndicated loan agreement with a volume of EUR 101 million was signed. It consists of a facility for cash credits and for surety credits, letters of credit and guarantees. The most important part of the agreement is a syndicated credit facility that is available until 31 March 2014. The new credit lines completely cover the budgeted financing requirements. The syndicate loan agreement encompasses the customary market covenants for companies facing restructuring The consistent further implementation of the restructuring programme is the most important measure in this context aimed at securing the planned business development, which explains why it has top priority for the Executive Board.

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)
- Dr. Bernd Köhler, Diplom-Volkswirt, Ubstadt-Weiher (Chief Financial Officer; appointed effective 1 December 2011)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Chief Operating Officer)
- Sabine Kauper, Diplom-Betriebswirtin (FH), Merching (Chief Financial Officer; resigned as of 31 December 2011)
- Ulrich Reidenbach, Diplom-Ingenieur, Munich (Chief Sales Officer; resigned as of 31 January 2012)

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. Andreas Hänel is a member of the Executive Board of Phoenix Solar Incorporation, USA, and of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore
- Murray Cameron is the Chairman of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, and CEO and President of Phoenix Solar Inc., USA
- Sabine Kauper was a member of the Executive Board of Phoenix Solar Incorporated, USA, and a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, until 31 December 2011; since 15 June 2009 she has also been a member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Unterneukirchen
- Ulrich Reidenbach was a member of the Executive Board of Phoenix Solar Incorporated, USA, and a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, until 31 December 2011

The compensation granted to the Executive Board in financial year 2011 amounted to EUR 947 thousand (PY: EUR 1,798 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	
	2011	2010	2011	2010	2011	2010	2011	2010
Dr. Andreas Hänel	255	176	42	171	0	139	297	486
Dr. Bernd Köhler	16	0	4	0	5	0	25	0
Dr. Murray Cameron	157	140	33	127	0	125	190	392
Sabine Kauper	166	163	32	154	0	139	198	456
Ulrich Reidenbach	210	171	27	154	0	139	237	464
Total	**804**	**650**	**138**	**606**	**5**	**542**	**947**	**1,798**

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 connection with the implementation of the German Executive Board Compensation Act, the company revised the rules applicable to success-dependent compensation components in 2011. 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 contributions to a defined contribution pension plan.

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 as of 31 December 2011. In the event of a change of ownership, a consolidated holding of at least 30 percent of the voting rights in Phoenix Solar AG by a shareholder or third party or through the conclusion of a company agreement with Phoenix Solar AG as an dependent company, the remaining Executive Board member would be entitled, within a period of three months after becoming aware of the occurrence of such an event, to terminate his employment contract and resign from his position with advance notice of six months prior to the end of a month. In this case, the Executive Board member would be entitled to a severance award equal to no more than three years' fixed compensation and 80 percent of the maximum possible variable compensation.

(43) SUPERVISORY BOARD OF THE PARENT COMPANY

- Michael Fischl, Dipl.-Kfm., Abensberg (Chairman), Head of Internal Audit of Sparkasse Ingolstadt
- Prof. Dr. Klaus Höfle, Giengen, Dipl.-Wirtschaftspädagoge, Chief Executive Officer of stairconsult | Prozessberatung and associate lecturer at three universities
- Dr. Patrick Schweisthal (Vice Chairman), Rohrbach, lawyer
- Prof. Dr. Thomas Zinser, Hohenschäftlarn, tax advisor with Kanzlei Ebner Stolz Mönning Bachem and professor at Landshut University in the Department of Taxes, Accounting and General Business Administration
- Oliver Gosemann, member of the Executive Board of Knürr AG, Forst (since 16 June 2010)
- Dr. Torsten Hass, independent management consultant (since 16 June 2010)

The total compensation of the Supervisory Board members in financial year 2011 amounted to EUR 389 thousand (PY: EUR 261 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	
	2011	2010	2011	2010	2011	2010	2011	2010
J. Michael Fischl	91	28	15	63	0	0	106	91
Prof. Dr. Klaus Höfle	38	20	5	21	0	0	43	41
Dr. Patrick Schweisthal	57	17	8	27	0	0	65	44
Prof. Dr. Thomas Zinser	71	18	10	21	0	0	81	39
Oliver Gosemann	45	12	5	12	0	0	50	24
Dr. Torsten Hass	39	10	5	12	0	0	44	22
Total	**341**	**105**	**48**	**156**	**0**	**0**	**389**	**261**

(44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The professional fee paid to the auditing firm in financial year 2011 and recognised as an expense in 2011 was divided up as follows:

	2011 k €	2010 k €
a) Services related to the audit of financial statements	285	209
b) Other certification services	114	95
c) Tax advisory services	0	0
d) Other services	132	0
Total	**531**	**304**

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-group.com/en/investor-relations/corporate-governance/declaration-of-conformity.html).

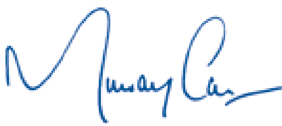
The last issuance and publication of the Declaration occurred on 16 March 2012.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 12 May 2012
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Dr. Bernd Köhler
(Chief Financial Officer)



Dr. Murray Cameron
(Chief Operating Officer)

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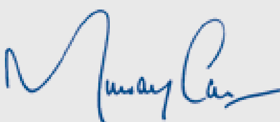
AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

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, 12 May 2012
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Dr. Bernd Köhler
(Chief Financial Officer)



Dr. Murray Cameron
(Chief Operating Officer)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from January 1, 2011 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code are the responsibility of the Parent Company's Board of Managing Directors. 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 Article 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, 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 the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code 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.

We are bound by duty to point out that there are risks which endanger the existence of the company. These are detailed in section 7.4.4 "Financial Risks", subsection "Group Financing" of the Group Management Report. There it is explained that the Company's liquidity depends on the Group being able to fulfill the covenant obligations as indicated in the company planning projections and on which the loan agreement is based. Any breach of covenants may lead the bank syndicate to exercise its extraordinary termination right for the credit lines.

Munich, May 12, 2012

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Henning Hönsch
Wirtschaftsprüfer
(German Public Auditor)

Dietmar Eglauer
Wirtschaftsprüfer
(German Public Auditor)

ADDITIONAL INFORMATION

Review of the year 2011 ... 155
Photovoltaic glossary ... 156
Editorials and contact ... 159
Financial calendar ... 160
Group structure ... back cover

REVIEW OF THE YEAR 2011

First Quarter

2010 Annual Results
Phoenix Solar AG reports the highest consolidated revenues and the best operating profit in the history of the company – increase of 26 percent in international business, module sales of 313 MWp.

Solar power plant in Saudi Arabia
Start of construction on a 3.5 MWp solar park commissioned by the Saudi Arabian Oil Company (Saudi Aramco) near Riad – photovoltaic project was awarded through an international bidding procedure.

La Rouchouse solar park
Signing of contract for the turnkey construction of a 1.7 MWp solar park in France; Phoenix Solar is EP contractor and takes over operation and maintenance upon completion.

Second Quarter

Construction of two solar parks in Thailand
Milestone in expansion outside Europe: Phoenix Solar Singapore signs a contract in June on the planning and delivery of two solar parks of around 16 MWp in total to the north-west of Bangkok.

First power plant project with KGAL in France
Phoenix Solar builds a 12 MWp solar power plant in Le Castellet to the south-east of Marseille, the company's largest plant so far outside Germany; completion at the end of August, as scheduled.

Intersolar Europe 2011
Phoenix Solar presents Phoenix TectoFlat, an innovative flat roof installation system, at the solar industry's leading trade fair in Munich – stand-alone features are the versatility of the system and significant price advantages.

"Green Card" for Phoenix Solar
Award conferred by the Deutsche Umwelthilfe (DUH) for the low CO_2 emissions of the Executive Board vehicles and vehicle fleet – only four of the 153 companies surveyed were given a "Green Card".

Third Quarter

Annual General Meeting of Shareholders 2011
The Annual General Meeting on 14 July approves dividend distribution of EUR 0.35 per share to the shareholders of Phoenix Solar – in continuation of the investor-oriented dividend policy.

Largest international contract in the history of the company
Contract for the construction of two solar power plants in France totalling 24 MWp is signed in July – the solar parks generate around 36 million kWh of green electricity a year.

Photovoltaic plant along railway tracks
A 4.7 MWp solar park in the region of Lake Constance: Commissioned as EPC contractor by a regional supplier of renewable energies, Phoenix Solar completes the project by the end of August.

Market entry into India
Contract signed by Phoenix Solar Singapore for the construction of two solar power plants, each 1 MWp, in the Tamil Nadu and Gujarat provinces – both projects grid-connected by the end of 2011.

Fourth Quarter

Restructuring and financing
The covenants specified in the loan agreement are not adhered to – upon submission of an expert reorganisation plan, Executive Board embarks on the restructuring programme and negotiations for new financing.

1.4 MWp solar park in America
US subsidiary forms strategic alliance with the Silicon Ranch Corporation – 1.4 MWp solar power plant in Tennessee is the first project under the cooperation and the centrepiece of the planned "Pulaski Energy Park".

Photovoltaic power plant in Greece
Greek subsidiary of Phoenix Solar AG commissioned as EPC contractor to realise a solar power plant with a peak power output of 1.1 MW in Central Macedonia.

Change at Executive Board level
Dr. Bernd Köhler is appointed member of the Executive Board, effective 1 December 2011 – he takes over as Chief Financial Officer and successor to Sabine Kauper on 1 January 2012.

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-technically 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_2 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_2) 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 growth-oriented lowering of the feed-in tariff. The compensation rates for new installed systems, for instance, fell by 15 percent on 1 January 2012. 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 certain period exceeds or falls below a defined growth corridor, degression is either raised or lowered. 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 30 June 2011. 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) 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).

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 multicrystalline) 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 up to 12.43 cent as from 1 January 2012.

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 electricity consumption is now higher than 20 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.

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CONCEPT AND DESIGN

RED, Munich/ Krailling, Germany

FORWARD-LOOKING STATEMENTS

This annual 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 result. These risks and factors of uncertainty include, for instance, climatic changes, 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 and rapid technology 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 update forward-looking statements on an on-going basis or at a later point in time, as this is entirely dependent on circumstances prevailing on the day of their release.

Financial Calendar 2012

15/05/2012 Annual Report 2011

15/05/2012 Q1 Report/Interim Figures as per 31/03/2012

21/06/2012 Ordinary Annual General Meeting of Shareholders 2012

09/08/2012 Q2 Report/Interim Figures as per 30/06/2012

08/11/2012 Q3 Report/Interim Figures as per 30/09/2012

The updated financial calendar can be viewed on the Phoenix Solar AG website under
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 31/12/2011

Phoenix Solar AG
Sulzemoos, Germany

SUBSIDIARIES

Share	Company
100 %	**Phoenix Solar Pty Ltd*** Adelaide, Australia
100 %	**Phoenix Solar SAS** Lyon, France
100 %	**Phoenix Solar E.P.E.** Athens, Greece
100 %	**Phoenix Solar S.r.l.** Rome, Italy
75 %	**Phoenix Solar Sdn Bhd** Kuala Lumpur, Malaysia
70 %	**Phoenix Solar L.L.C.** Muscat, Oman
75 %	**Phoenix Solar Pte. Ltd.** Singapore
100 %	**Phoenix Solar S.L.** Madrid, Spain
100 %	**Phoenix Solar Inc.** New Castle, DE, USA
100 %	**Phoenix Solar Fonds Verwaltung GmbH** Sulzemoos, Germany
100 %	**Phönix SonnenFonds GmbH & Co. KG D4** Sulzemoos, Germany

OTHER HOLDINGS

Share	Company
100 %	**33 special purpose entities** (see Notes A)
31.2 %	**Phönix SonnenFonds GmbH & Co. KG B1** Sulzemoos, Germany

*closed in Q1 2012

Making energy together

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