ANNUAL REPORT 2013

PHOENIX SOLAR AT A GLANCE

Company profile

Phoenix Solar AG, which has its headquarters in Sulzemoos near Munich, is an international photovoltaic system integrator. The Group develops, plans, builds and operates large-scale photovoltaic plants and is a specialist wholesaler for turnkey power plants, solar modules and accessories. With subsidiaries on three continents, the company has sold solar modules with an output of significantly more than one gigawatt since its founding. The shares of Phoenix Solar AG (ISIN DE000A0BVU93) are listed on the official market (Prime Standard) of the Frankfurt Stock Exchange.

Financial Figures

		01/01/2013 – 30/12/2013	01/01/2012 – 30/1/2012	Change
Revenues and results				
Shipments	MWp	126	130	– 3.1 %
Revenues	k€	141,223	155,430	– 9.1 %
– Domestic	k€	16,667	46,428	– 55.0 %
– International	k€	124,556	109,002	10.4 %
Overall performance	k€	141,223	158,729	– 11.0 %
EBIT	k€	– 1,407	– 31,790	– 95.6 %
– in % of revenues (EBIT margin)	%	– 1.0 %	– 20.5 %	– 95.1 %
Consolidated net income for the period	k€	– 9,306	– 37,591	– 75.2 %
Orders on hand	k€	64,991	74,889	– 13.2 %
Balance sheet[1]				
Total assets	k€	67,758	92,652	– 26.9 %
Equity	k€	7,464	17,304	– 56.9 %
Equity ratio	%	11.0 %	18.7 %	– 41.0 %
Return on equity	%	– 124.7 %	– 68.6 %	81.7 %
Phoenix SonnenAktie®[1]				
No-par bearer shares	Units	7,372,700	7,372,700	0.0 %
Closing price	€	4.70	1.05	348.0 %
Market capitalisation	k€	34,652	7,734	348.0 %
Earnings per share				
– Basic	€	– 1.45	– 5.06	– 71.6 %
– Diluted	€	– 1.45	– 5.06	– 71.6 %
Employees[1]				
Employees[2]	Heads	120	228	– 47.4 %
Employees[3]	Heads	147	256	– 42.6 %
Revenues per capita[3]	k€	961	593	58.3 %

[1] At end of the period
[2] Average employee number, including part-time and temporary staff
[3] Full-time equivalent, average of the period 01/01 – 31/12

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TO OUR SHAREHOLDERS

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

We have made a big step along the way. After two years of writing high losses, we closed the year 2013 with earnings (before interest and taxes) close to breakeven, which is even better than we originally anticipated, and positive cash flows from operations. What is more, this was accomplished although revenues were not even a quarter of the volume generated in 2010, which was our best year. These key performance indicators alone suffice to tell the story of how radically we have had to restructure the company to secure its future and set in place sound, sustainable foundations.

This manoeuvre may have caused some of you as our valued shareholders to catch your breath, especially at the start of the year. Now, however, after all those years when our share price was shedding value, the news that the capital markets have rewarded us for taking this path will be all the more welcome. Indeed, our share price more than quadrupled over the course of the year 2013. We view garnering trust in the medium and long term as a core management task, which is reflected by this gratifying development.

At this point let us first take a closer look at developments in the past months: Similar to 2012, the year 2013 was extremely eventful and packed with measures designed to bring us closer to our goals. One of the most radical measures was closing our trading and project business, formerly operated out of Germany, which was largely prompted by the ongoing deterioration in the political framework conditions in this country.

This decision was one of the most difficult in recent years since Germany was – and still is – our country of origin, where we "grew up" and which got us off to an impressive start while generating good business for a long time. Moreover, the consequences of this decision entailed reducing our workforce for the third time and parting from many employees some of whom had been with the company since its foundation and dedicated their endeavours to ensuring its successful years. The company's founder, Dr. Andreas Hänel, who served as Chief Executive Officer for many years, also left Phoenix Solar AG in the process. We all owe him and his team a huge debt of gratitude for their commitment to building up the company, and especially to Dr. Hänel for his drive to initiate the internationalisation of the company's business at an early stage.

Indeed, it is only because we can rely on an international presence across the globe that we can now move ahead with developing the company on a sound basis, even without our former business in Germany. The new strategy met with our banks' approval, and they have renewed our financing in a slightly reduced scope through to March 2015. By divesting ourselves of loss-making business, we have been able to improve our results even more swiftly than originally planned. As early as the second quarter of 2013, we were again delivering positive operating results. By the third quarter, we had improved our bottom line to the extent that we were writing black figures for the first time in three years.

At this point, I would like to express our thanks to all our employees who gave their support to the restructuring measures over the course of the year and implemented them, as well as our staff in companies all over the world who have worked so successfully.

The question is: have we already achieved a turnaround, leaving restructuring behind us to tread the path of profitable growth once more? Are we now back on the sunny side? Where do we stand at the start of 2014?

Our strong presence in the growth regions of the USA and Asia was decisive for our success in 2013. Around 40 percent of our revenues were achieved in these two countries respectively. We are proud in equal measure of the large, multi-megawatt projects in Thailand and Georgia and of the numerous smaller, interesting projects for high-profile customers. Our strengths in the West as well as in the Far East lie in our people who are hugely committed to boosting sales and completing contracts in these regions. They enable us to assist our customers in the USA, not only through our experience in planning and construction, but additionally with complex approval procedures, as well as supporting them in structuring the necessary financing. Our multi-national team in Singapore maintains an excellent network in this region and achieved acclaim through a series of prizes conferred for innovation and environmental responsibility at the solar trade show in Southeast Asia in October.

Taking the whole company forward hinges on both subsidiaries consolidating their sales successes in 2013 and continuing their expansion.

By contrast, our European companies are operating in an extremely difficult environment. Former government subsidy models have been abolished virtually across the board. Given the downturn in system prices, photovoltaic has meanwhile become competitive, with grid parity achieved. Consequently, the high level of solar irradiation throughout the Mediterranean region could offer attractive incentives for self-consumption models. However, the economic situation is delicate, financing is problematic, and governments are being creative in imposing levies or taxes retrospectively, focusing especially on photovoltaic systems. This great uncertainty resulted, for instance, in not one new photovoltaic system and not a single additional KWp being installed throughout the whole of Spain last December, which prompted us to scale back our activities in southern Europe to an absolute minimum for the time being. We nonetheless think it expedient to maintain our presence to be at hand if the situation improves, since we basically anticipate a recovery in the local markets.

We also announced that we had not entirely relinquished hope for the German market. A small team worked on developing new business models in 2013 which do not depend on incentives under the German Renewable Energies Act (EEG). With standardised small photovoltaic systems for household roofs, optimised exclusively for maximum use by the occupants, we can offer our customers a substantial reduction in their electricity bills and an amortisation period of eight to ten years. We have now launched the pilot phase of this offering.

We nonetheless observe the signals from Berlin with great scepticism. Plans have been tabled to levy charges even on electricity produced for self-consumption. It remains to be seen how far the legislation ultimately passed will go in allowing photovoltaic sales in Germany to largely dry up. It would be regrettable if we were then forced to shelve our new business models which are currently being tested: A huge opportunity would be wrested from us. This would not, however, signify a risk for our plans to develop business overall.

In our opinion, the Gulf Region also offers opportunities. This is where we have built the KAPSARC photovoltaic plant which, with a peak power totalling 5.3 MWp, is Saudi Arabia's largest ground-mounted power plant. Our customer Saudi Aramco, which is after all one of the world's largest oil companies, has expressed great satisfaction with our service and may possibly become a partner and gateway to further cooperation. Should sustainable business opportunities arise from this connection we will be ready.

As you can see, the situation is not altogether rosy, and there are still a few clouds on the horizon. Nevertheless, the sun is clearly in view. Our current planning is mainly based on the regions of the USA and Southeast Asia. Assuming we can acquire and securely execute the requisite volume of contracts in these countries, our plans to return to the profit zone will come to fruition. Despite the delicate political and

economic general conditions, Europe does not harbour any major risks at the current level; a recovery in the markets of our subsidiaries, above all success with the new business models in Germany, may well provide us with significant stimulus. In the Gulf Region, we are in the process of building up our network and investigating whether there are opportunities for us and, if so, which.

Our determination to make progress in the transition from restructuring towards new growth is signalled by appointing a new Executive Board member: Olaf Laber assumed Board member responsibility for business in Europe, including the new business models in Germany, and in the Middle East as of 1 January 2014. His experience in establishing and managing successful sales structures and teams is already taking positive effect. Ahead of us – and your Phoenix Solar AG – lies another busy year.

Dr. Bernd Köhler
(Chief Executive Officer)

EXECUTIVE BORD OF PHOENIX SOLAR AG

DR. MURRAY CAMERON
Founding memer of the company and member of the Executive Board since 2003

Field of responsibility:
The Phoenix Activities in the USA and Asia

DR. BERND KÖHLER
Chief Executive Officer since March 2013, Chief Financial Officer since 1 January 2012

Field of responsibility:
Strategy, Marketing and Communication, Finances, Law and Administration

OLAF LABER
Member of the Executive Board since 1 January 2014

Field of responsibility:
The Phoenix Activities in Europe and the Middle East as well as New Business Models

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board herewith submits its report to the regular General Meeting of Shareholders, in particular on its supervision of management during the year under review, on its audit of the company's financial statements and management report drawn up as at 31 December 2013 pursuant to the provisions of the German Commercial Code (HGB), as well as on the consolidated financial statements and report on the Group, and on its statement on the report of the independent auditor.

BACKGROUND INFORMATION

In the reporting year, the Supervisory Board held six regular meetings, including one extraordinary meeting and two closed-door sessions. In doing so, it exercised the tasks incumbent upon it under the law, the Articles of Association and the bylaws. Owing to the changing situation of the company, the Supervisory Board kept abreast of the development of ongoing restructuring and the pertinent measures taken in an additional ten meetings conducted via telephone. If required, resolutions were also passed in these meetings. In exceptional cases, voting was made by way of circulation procedure. No member of the Supervisory Board took part in less than half of the meetings.

The Supervisory Board consists of the following three members: Mr. J. Michael Fischl (Chairman), Prof. Dr. Thomas Zinser (Vice Chairman) and Mr. Oliver Gosemann. The requirements placed on independent financial experts within the meaning of Section 100 para. 5 of the German Stock Corporation Act (financial expert) were and are fulfilled by Prof. Dr. Thomas Zinser who is a full-time tax adviser by profession.

No committees were formed in the period under review.

In accordance with the resolution passed by the Annual General Meeting of Shareholders on 6 June 2013, the Chairman of the Supervisory Board mandated Munich-based PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft on 28 December 2013 in observance of Section 111 para. 2 sentence 3 of the German Stock Corporation Act (AktG) with the audit of the separate annual financial statements and the management report on the company, drawn up pursuant to Section 315a of the German Commercial Code (HGB), and the consolidated financial statements and Group management report prepared under IFRS/IAS standards. The external auditor submitted an Auditor's Independence Declaration 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 26 March 2014, the Supervisory Board consulted with the Executive Board and agreed on the Corporate Governance Report in accordance with the recommendations of the German Corporate Governance Code in the version dated 15 May 2012 (published in the German Electronic Federal Gazette on 15 June 2012) and in the version dated 13 May 2013 (published in the German Electronic Federal Gazette on 10 June 2013) pursuant to Section 161 of the German Stock Corporation Act. The Declaration of Conformity was published in accordance with statutory provisions. The full Corporate Governance Report with the Declaration of Conformity is part of the Annual Report.

The Supervisory Board reviews the efficiency of its work on an ongoing basis. The key areas of this review are the structuring and organisation of the meetings, optimising reporting by the Executive Board and passing resolutions on agenda items, as well as the presentation of the financial and earnings position of the company. The members of the Supervisory Board took part in external continuous professional development over the course of the year with a view to optimising their expert qualifications.

REPORT ON THE SUPERVISION OF THE COMPANY'S MANAGEMENT BY THE SUPERVISORY BOARD DURING THE REPORTING YEAR

The Supervisory Board held regular meetings, deliberated intensively on the items on the agenda, and actively analysed the development of the company and the situation in the sector. The Supervisory Board advised the Executive Board in the management of the company and supervised the latter's activities. The supervision of the company's management is conducted first and foremost through the receipt 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 maintained constant contact with the Chairman of the Executive Board and the Chief Financial Officer, and kept himself informed of the current status of business, progress made with restructuring, and individual business transactions.

Owing to the persistently difficult situation of the company at the start of 2013, restructuring consultants partly attended the meetings in order to report on the status of investigations, the main content of the restructuring appraisal and its revision, and the stage reached in implementation. Furthermore, the Supervisory Board kept itself informed of the progress made in restructuring and discussions with the financing consortium through monthly telephone conferences with the Executive Board.

The Supervisory Board was therefore involved in a timely fashion in all decisions of key significance for the company and the Group.

The supervisory and advisory activity in the period covered by this report focused on the following issues:

- consolidation through sustainable restructuring to secure the company as a going concern, in cooperation with the restructuring consultant,
- discussion of and preparation for further steps in the event of unsuccessful consolidation and/or discussions with banks,
- matters affecting taxation, particularly in connection with subsidiaries,
- reduction in personnel while taking the aspect of securing the company's competitiveness into consideration,
- concept for a viable market development and sales strategy,
- assessment of the consequences of the political discussion on curtailing feed-in tariffs in key regions, such as Germany, southern and southeast Europe as well as in the USA for the company's business policy,
- analysis of alternatives and/or supplementary business segments to reduce the risk of strong dependence on political decisions,
- discussion on changes at Executives Board level and the allocation of the New Business Models remit as well as the regions of Germany, Europe and the Middle East at Executive Board level,
- receipt and discussion of the Executive Board reports pursuant to Section 90 of the German Stock Corporation Act on the liquidity and financial position, the business policy envisaged, and other fundamental issues pertaining to corporate planning (in particular finance, investment and personnel planning),
- monitoring the 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 on this basis,
- receipt and discussion of the newly established basis of the Compliance Management System and the requisite reporting,
- receipt and discussion of reports submitted by Internal Audit,
- monitoring the stock market value of the company,
- discussion of the stage of development reached by the individual business segments and the subsidiaries,

- review and discussion of significant contractual problems and projects,
- addressing the content of the German Corporate Governance Code,
- contractual rules and regulations and changes at Executive Board level in the process of realigning the company's sales.

The Supervisory Board agreed to the Executive Board's proposals for decision following extensive analysis and discussion. In the case of measures subject to approval by the Supervisory Board, the main topics were as follows:

- personnel reduction in the centralised units and to some extent in the European subsidiaries,
- building up of the sales organisation in the existing core markets, particularly in the USA,
- development of a new sales concepts,
- allocation of responsibilities at Executive Board level,
- corporate planning for the Group,
- execution of and participation in major projects,
- strategic realignment of Phoenix Solar AG,
- restructuring in relation to the US subsidiary Phoenix Solar Inc. in accordance with company law.

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.

CHANGES AT EXECUTIVE BOARD LEVEL

In the reporting period, there were the following changes at Executive Board level:

Dr. Andreas Hänel withdrew from the company's Executive Board on 28 February 2013 in the course of the ongoing restructuring of the company and its concentration on international business and the discontinuation of significant business activities in Germany.

The Supervisory Board appointed Dr. Bernd Köhler to the position of Chief Executive Officer with effect from 1 March 2013. In addition, Dr. Köhler assumed the duties of Chief Financial Officer.

Mr. Olaf Laber was appointed a member of the Executive Board on 1 January 2014. Mr. Laber is in charge of the New Business Models Department as well as the regions of Germany, Europe and the Middle East.

REPORT BY THE SUPERVISORY BOARD ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS OF THE COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS

The members of the Supervisory Board took receipt of the following in good time before the Board's meeting during which the financial statements were adopted:

- the annual financial statements for the financial year 2013,
- the report of the Executive Board on the situation of the company in 2013,
- the consolidated financial statements 2013 prepared in accordance with IFRS/IAS standards,
- the report of the Executive Board on the situation of the Group in 2013.

The separate financial statements and the management report on the company as well as the consolidated financial statements and the report on the Group were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The audits did not give rise to any objections; unqualified auditor's opinions were issued.

The Supervisory Board deliberated on and examined the annual financial statements and management reports in its meeting on 26 March 2014 – also attended by the Executive Board which explained the accounts it had prepared – and held intensive and detailed discussions with the independent auditor who also participated in the meeting and reported on the key findings, as well as the key areas and scope of the audit, and was available for additional information. No major weaknesses in the internal control and risk management system pertaining to the accounting process were ascertained.

The Supervisory Board had the independent auditor report in detail and confirm that

- all components of financial accounting as well as the annual financial statements based on this accounting were systematically correct,
- the processes for achieving a complete, accurate, timely and proper capturing, 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,
- the substantiation of the underlying assets and liabilities show that they accord with the carrying amounts disclosed,
- the contract register used for the assessment of pending transactions and the notes to the financial statements give the impression of being transparent and complete,
- the statutory provisions on recognition, disclosure and measurement were complied with and the annual financial statements give an accurate picture of the net assets, financial position and result of 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 examination, the Supervisory Board ascertained that there were no objections to be raised.

The Supervisory Board ratified the annual financial statements prepared by the Executive Board for the company, which are hereby adopted. The Supervisory Board also ratified the consolidated financial statements.

In its meeting on 26 March 2014, following consultation with the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act, the Supervisory Board issued the following statement on the independent auditor's report:

"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 2013 at company level and at Group level by the independent auditor who has issued an unqualified audit opinions. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the separate annual financial statements as at 31 December 2013 are ratified by the Supervisory Board in its meeting on 26 March 2014, and are thereby adopted. Moreover, the Supervisory Board also ratifies the consolidated financial statements as at 31 December 2013."

Sulzemoos, 26 March 2014

J. Michael Fischl
(Chairman of the Supervisory Board)

CORPORATE GOVERNANCE REPORT

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

The Executive Board and the Supervisory Board of Phoenix Solar AG again dealt extensively with the recommendations of the “Government Commission on the German Corporate Governance Code” (GCGC).

The recommendations and important suggestions have been implemented, with only a few exceptions. Departures from the recommendations 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. In 2013, employees from 17 different countries were working in the group of Phoenix Solar AG. Of the total workforce numbering 124 employees (excluding Executive Board members, trainees and temporary staff), 33.1 percent were women; at year-end, the proportion of women holding second level managerial positions stood at 35.3 percent.

EXPERTISE OF THE SUPERVISORY BOARD

The Supervisory Board regularly holds a closed-door session 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 succession planning.

The manifold responsibilities and tasks of the Supervisory Board (e.g. finance, law, marketing and expertise regarding photovoltaic, 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, interpersonal skills are to be considered in the selection of members, alongside professional competence.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD

The Supervisory Board of Phoenix Solar AG comprises three members in total who are elected by the Annual General Meeting of Shareholders.

In view of the special challenges inherent in the business activities of Phoenix Solar AG, the growing share of international business and the size of the company and the Group, the Supervisory Board rescinded the resolution valid since 26 January 2011 by way of resolution on 20 February 2014 and determined the following objectives regarding the future composition of the Board:

- 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.
- Moreover, the members of the Supervisory Board should be independent.
- The Supervisory Board strives to achieve an optimal composition based on professional criteria and the company's situation. The requirements profiles determined in this process will be applied to potential candidates irrespective of their sex and, in the case of equal qualifications and experience, women will be given preference. Owing to the small number of Supervisory Board members no quotas have currently been ascertained for specific criteria pertaining to diversity.
- The forming of committees has been dispensed with in view of the small number of Supervisory Board members and the already swift decision channels in place.
- The age limit for members of the Supervisory Board is 67.

In Oliver Gosemann, the Supervisory Board has a member with extensive international entrepreneurial experience. The criterion of internationality is therefore fulfilled. The Supervisory Board is currently made up exclusively of independent members. None of these members maintain a personal or business relationship with the company, its committees, a controlling shareholder, or an affiliate associated with such a shareholder, that could constitute a material and not merely temporary conflict of interest, nor do they exercise a consultancy or committee function at customers, suppliers, lenders or other third parties. No member of the Supervisory Board has currently reached or exceeded the age limit of 67 years. At present there are no women on the Supervisory Board.

The Supervisory Board will take account of the aforementioned goals in its composition in future nominations.

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Entrepreneurial activity harbours risk. One of these risks arises from opportunities not being utilised. It is therefore our responsibility to optimise the exploitation of opportunities for the company while keeping risks to a minimum. Phoenix Solar AG has therefore installed risk management as a permanent process spanning all areas of the company to identify, assess, manage and control 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 encompassed. The goals, processes and distribution of tasks within the scope of the risk management system are documented in the company's risk management manual.

Phoenix Solar AG has a clear management and organisation structure within which 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 the valid guidelines on accounting and other directives relevant to 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, clear statutory provisions, 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 15a (Directors' Dealings) of the German Securities Trading Act (WpHG) can be viewed in the business register. These notifications have also been posted on the company's website at http://www.phoenixsolar-group.com/en.html and listed under "Directors' Dealings" in an updated form and are accessible for the space of one month.

In the financial year 2013, a number of individual reportable transactions within the meaning of Section 15a of the German Securities Trading Act were carried out by one Supervisory Board member. Not reportable pursuant to Section 15a 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.

As of 31 December 2013, shares in the company held by Executive Board and Supervisory Board members or financial instruments linked to the shares, both directly and indirectly, amounted to less than one percent of the shares issued by the company.

REMUNERATION REPORT

The details of the remuneration system of the Executive Board and the Supervisory Board, as well as itemised remuneration, are included under Section 12 of the Management Report.

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289A 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 Stock Corporation Act (AktG)

Pursuant to Section 289a of the German Commercial Code (HGB), Phoenix Solar AG has included a Statement on Corporate Governance in its management report which appears in a dedicated section. The Statement can also be made accessible to the public on the company's website. In this case, a corresponding reference consisting of a link to the web page is to be included in the management report.

RELEVANT CORPORATE GOVERNANCE PRACTICES

Corporate governance at Phoenix Solar AG as a listed German stock corporation is determined first and foremost by the German Stock Corporation Act (AktG) and other statutory provisions under German commercial and company law.

In addition, the Executive Board and the Supervisory Board have adopted the recommendations of the "Government Commission of the German Corporate Governance Code", in as much as no departure from the Code has been disclosed in the Declaration of Conformity. The company's Declaration of Conformity has been made accessible on the company's website. The German Corporate Governance Code can be accessed on the website of the Government Commission of the German Corporate Governance Code under http://www.corporate-governance-code.de/index-e.html.

WORKING PRACTICES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD AS WELL AS COMPOSITION AND WORKING PRACTICES OF THEIR COMMITTEES

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 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 segregated.

The members of the Executive Board manage the company under their own responsibility and cooperatively. The basis for their cooperation are 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 entire Executive Board decides on all significant measures.

The members of the Executive Board keep each other informed and report to one another on such measures. The Chairman of the Executive Board coordinates the areas of responsibility of the Executive Board and the observance of reporting duties and is to be kept informed by the other Executive Board members about all matters of importance.

The Executive Board generally makes decisions in meetings which the Chairman of the Executive Board convenes and chairs. Any member of the Executive Board may request that resolutions are also passed outside meetings in accordance with the bylaws. The Executive Board has a quorum when all members have been invited and at least half of the members are present. The Executive Board takes decisions by way of a simple majority of the votes cast in meetings and, outside meetings, by a simple majority of its members.

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. Significant measures require approval by the Supervisory Board in accordance with the details laid down in the bylaws.

The Executive Board is responsible for ensuring that the statutory provisions and rules and guidelines valid within the company are abided by and works towards compliance through the Group companies. To this end, as well as with a view to observing and disseminating high ethical standards at Phoenix Solar, it overhauled the uniform compliance organisation binding on the entire Group in the reporting year. The compliance organisation reflects the changed positioning of the Group and encompasses a clearly structured set of guidelines and reporting procedures. It was approved by the Executive Board and the managers and communicated to the employees.

The Executive Board has not formed any committees.

The Supervisory Board, which consists of three members, supervises and advises the Executive Board in the management of the company. The Supervisory Board has established a set of bylaws as the basis for collaboration. The Supervisory Board agrees the strategy developed by the Executive Board and keeps itself informed about the status of strategy implementation, the financial and investment planning of the next financial year and medium-term planning. Outside 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, the financial, liquidity and risk situation as well as risk management and compliance.

The Supervisory Board meets at least once every calendar quarter. The meetings of the Supervisory Board are convened and chaired by the Chairman or, in his absence, by his representative in accordance with the bylaws. If an item on the agenda has not been properly announced, it may be put to resolution only if no member of the Supervisory Board objects prior to the process of resolution. Decisions of the Supervisory Board are regularly taken in meetings and, in accordance with the details laid down under bylaws, also outside a meeting. The Supervisory Board has a quorum if at least three members participate in decision making, and adopts resolutions by a simple majority.

The Supervisory Board has not formed any committees.

JOINT DECLARATION OF CONFORMITY DATED 26 MARCH 2014

The company's Executive Board and the Supervisory Board recently issued the following Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act (AktG):

The Executive Board and the Supervisory Board of Phoenix Solar AG herewith declare that, since the last Declaration of Conformity dated 27 March 2013, the recommendations of the "Government Commission of the German Corporate Governance Code" in the version dated 15 May 2012 (published in the German Electronic Federal Gazette on 15 June 2012), were complied with and that the version dated 13 May 2013 (published in the German Electronic Federal Gazette on 10 June 2013) is complied with, with the following exceptions:

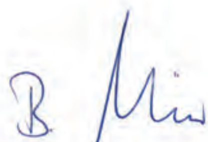
CHANGING PERFORMANCE TARGETS OR THE COMPARISON PARAMETERS RETROACTIVELY SHALL BE EXCLUDED IN THE VARIABLE COMPENSATION COMPONENTS. (in accordance with Code Item 4.2.3)

In a market environment characterised by a dynamic pace of development, it may be expedient and justifiable from the standpoint of the Executive Board and the Supervisory Board to retroactively adjust the performance targets or the comparison parameters for variable compensation components in substantiated cases.

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD (in accordance with Code Item 5.4.1)

The Supervisory Board determines objectives for its composition and publishes them, reporting on the status of their implementation in the corporate governance report. Given the size of the Board, however, the objectives do not provide for ascertaining quotas for certain diversity criteria.

Sulzemoos, 26 March 2014
Phoenix Solar Aktiengesellschaft



On behalf of the Executive Board
Dr. Bernd Köhler
(Chairman of the Executive Board)

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

PHOENIX SONNENAKTIE®

STOCK MARKET ENVIRONMENT

Most international stock markets continued their strong uptrend over the course of 2013. International crises, such as the civil war in Syria, did not have a sustained braking impact on the uptrend either. Given the largely unspectacular profit trend of heavyweight companies, doubts about economic development and the persistent sovereign debt crisis in Europe, the buying propensity of investors continued to be chiefly attributable to the liquidity surplus generated by the central banks. The budget dispute in the USA at the end of the third and at the beginning of the fourth quarter put an only temporary damper on the development.

As Germany's leading index, the DAX opened the new year's trading at 7,689 points , then rose steadily, albeit with partly strong fluctuations, and, having broken through the 9,000 point mark for the first time at the end of October, climbed swiftly from record high to the next. It closed the year at 9,552 points, thus gaining 24.2 percent over the year as a whole. Second-tier indices also scaled new heights towards the end of the year. The TecDAX began the year at 831 points and had climbed 40.4 percent to 1,098 points by the end of December.

Only at the beginning of 2014 did the optimism of most capital market participants begin to wane. Some market observers already see an end to the bull phase of several years, as opposed to others who hold fast to their ambitious expectations of a continued stock market uptrend.

The capital markets' expectation of solar industry generally maintaining its position in the market and of photovoltaic becoming increasingly important as a source of energy in the future is also reflected by the performance of the sector's Photovoltaic Global 30 index. Over the course of the year, the index reported its first growth since 2009. With an increase of 133 percent, it has more than doubled and continues its uptrend which set in at the start of 2014. The composition and the development of the sector's index shows the increasing weighting of American and Asian equities as well as the growing significance of business models independent of government backing.

SHARE PRICE PERFORMANCE

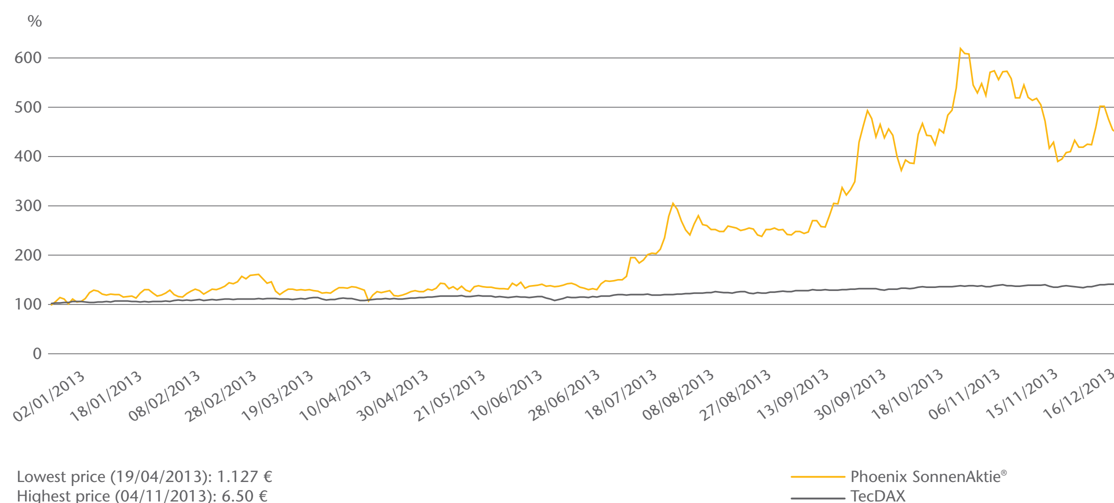
Over the course of 2013, the Phoenix SonnenAktie® (share of Phoenix Solar) more than quadrupled in value, thereby clearly outperforming the TecDAX and putting clear blue water between itself and other equities in the solar sector. This price trend manifested itself largely in the second half of the year. It can be interpreted as a response to good reports about the company as the summer months progressed. A number of capital market participants observed the strategic realignment of Phoenix Solar AG, announced in February and focusing on the growth regions of the USA and Asia, with interest albeit laced with initial reticence. The news of major contracts in Thailand in May and in the USA and Saudi Arabia in July provided sound evidence that the company was on the right track and encouraged some investors to build up positions in the Phoenix SonnenAktie®. On 8 August 2013, we also reported that Phoenix Solar had generated a profit at the EBIT level for the first time in a very long while.

In response, the number of enquiries by investors, analysts and journalists picked up notable momentum. High-circulation German financial newspapers included Phoenix Solar in their model portfolios. Conferences in London, Frankfurt and Munich elicited interest in one-to-one meetings with the Chief Executive Officer that was as brisk as that shown at the industry's Solar Power International trade fair in Chicago.

Against this backdrop, the share price developed well, though partly with a great deal of volatility, through to the middle of the fourth quarter. In the third quarter, the share rose by 150 percent, from EUR 1.47 on 28 June 2013 to EUR 3.67 on 30 September 2013. At the start of October, the price continued to rise. As of 1 October, the Phoenix SonnenAktie® had advanced by 22.8 percent, accompanied by brisk turnover, and was quoted at EUR 5.40 on 2 October. On this day alone, around 1.2 million shares changed hands, which is more than one seventh of the company's whole equity portfolio. The share price dipped to EUR 3.91 before the end of October (XETRA closing price on 15 October 2013) and subsequently recovered again. Through to the start of November, there was another surge in the share price, accompanied by high turnover levels, driving it to its peak of EUR 6.50 (XETRA closing price on 4 November 2013. During the course of the day, the share price even exceeded the EUR 7.00 mark but was subsequently unable maintain this level. The price of the Phoenix SonnenAktie® underwent corrections in November and December while displaying a great deal of volatility and returning to lower turnover volumes, and closed at EUR 4.70 on 30 December 2013. This disparate and volatile trend persisted at the start of 2014 as well. Whereas, on the one hand, a sideways movement or correction was to be expected for the share of Phoenix Solar AG following its leaps and bounds in 2013, on the other, the generally weaker performance of the equities markets in and since January 2014 has had a noticeable effect.

As already announced, we have committed to the task of stepping up our capital market communication to flank our continued business success. This will involve putting the interest of capital market participants in the Phoenix SonnenAktie® on a broader footing again and fostering the understanding that Phoenix Solar AG has embarked on its own special path within the solar industry, with its financing basis secured through to March 2015, along with its focus on international growth regions and new business models, and that it is working on consistently using the opportunities arising on the path towards profitable growth.

Price performance of the Phoenix SonnenAktie® versus the TecDAX (01/01/ – 31/12/2013)



The market capitalisation of Phoenix Solar AG stood at EUR 34.7 million on 31 December 2013 (31 December 2012: EUR 7.7 million). In terms of its trading volume (XETRA), the share's daily turnover averaged around 55,900 units in the financial year 2013 (2012: around 37,500 units).

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The fifteenth regular Annual General Meeting of the shareholders of Phoenix Solar AG took place on 6 June 2013 in Fuerstenfeldbruck. All items on the agenda were approved with majorities of more than 90 percent. Presence during the casting of votes came to 9.74 percent of the voting share capital of EUR 7,372,700. Owing to the losses incurred, no dividend was paid for the financial year 2012.

The company will not be paying dividend for the financial year 2013 either for the same reason. A return to the investor-oriented dividend policy practised in previous years depends on how the company's business develops in the coming years.

SHAREHOLDER STRUCTURE

At present, no shareholders who hold more than 3 percent of the shares in Phoenix Solar AG are known. As of 31 December 2013, the Executive Board and the Supervisory Board held 0.95 percent of the shares. According to the definition of Deutsche Börse AG 100 percent of the shares in Phoenix Solar AG are in free float.

INVESTOR RELATIONS

Capital market communication in the financial year 2013 focused on the strategic realignment of the Group, concluded in February, which the Executive Board explained to financial analysts in a telephone conference held on 13 February 2013, and ongoing reporting on the activities of the international subsidiaries.

The Chief Executive Officer took part in an international conference in London at the end of September during which a series of one-to-one discussions were held. October saw further discussions with individual US investors at the Solar Power International trade show in Chicago.

The Chief Executive Officer gave presentations on the company at the Equity Forum of Deutsche Börse AG and at the Munich Capital Market Conference in November and December. He also took part in an investor round table in Munich.

At the beginning of 2014, Close Brothers Seydler AG took over the role of designated sponsor of the share of Phoenix Solar AG, which marked the end to the cooperation with HSBC Trinkaus & Burkhardt AG in supporting trading.

The company's Financial Calendar 2014 has been posted on its website under the "Investor Relations" heading and is regularly updated.

ANALYST COVERAGE

The entire solar industry has not elicited the interest of research units since the crisis years of 2011 and 2012. Despite the substantial increase in market capitalisation in the financial year 2013, only one analyst currently regularly covers the Phoenix Sonnenaktie®. On 15 November 2013, Close Brothers Seydler published an update with a "hold" rating and a share price target of EUR 5.80.

Key Figures

		Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013	2012
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]	€	10,100,599	10,837,869	27,020,946	34,651,690	34,651,690	7,741,335
Closing price (Xetra)	€	1.47	3.67	4.70	4.70	4.70	1.05
Highest price	€	1.69	1.52	3.67	6.50	6.50	3.53
Lowest price	€	1.04	1.13	1.37	3.91	1.04	0.63
Trading volume	Units	2,388,259	918,163	3,476,434	7,296,914	14,079,770	15,191,048
	€	3,180,894	1,281,507	9,631,163	37,047,264	51,140,828	23,744,573
Earnings per share[4]	€[2]	– 0.82	– 1.02	– 1.01	– 1.45	– 1.45	– 5.06
	€[3]	– 0.82	– 1.02	– 1.01	– 1.45	– 1.45	– 5.06

[1] At the end of the period [2] Basic earnings per share [3] Diluted earnings per share [4] Aggregated across the quarters

Share fact sheet

International Securities Identification Number (ISIN)	DE000A0BVU93
Securities identification number (sec. ident. no.)	A0BVU9
Symbol	PS4
Class of shares	No-par bearer shares
Number of shares as per 30/06/2011	7,372,700 units
Share capital on 30/06/2011	€ 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, Hanover
Sector/sub-sector	Industrial Products & Services/Renewable Energies
Indices	CDAX, Prime All Share, Technology All Share, various sector and sub-sector indices of Deutsche Börse AG
End of the financial year	31 December
Accounting standards	IFRS
Commencement of stock market listing	18/11/2004
Designated Sponsor	HSBC Trinkaus & Burkhardt AG (up until 31/12/2013)
	Close Brothers Seydler AG (since 01/01/2014)

THE YEAR 2013

HIGHLIGHTS

JANUARY

Festive inauguration 1: Our US subsidiary builds a power plant with an output of 9.5 MWp for the Volkswagen factory in Chattanooga, Tennessee.

Festive inauguration 2: January also sees our first power plant in the Arab world inaugurated on the site of King Abdullah Petroleum Studies and Research Center.

FEBRUARY

Strategic realignment: Phoenix Solar concentrates on the growth regions of the USA and Asia. The trading and project business which had formerly been managed from Germany is discontinued in its previous form. Operation and maintenance services continue to be provided, as before; work on developing new business models independent of government subsidies begins.

MARCH

Following the withdrawal of Dr Andreas Hänel, founder and long-standing Chief Executive Officer, from the company at the end of February, Dr. Bernd Köhler takes up the office of Chief Executive Officer as from 1 March 2014.

APRIL

Major contract 1: Our Singapore subsidiary announces that, with financing arranged by the customer, the project already under way to build three solar power plants with a total output of 36 MWp has been secured.

JUNE

Innovation: Phoenix Solar builds a floating photovoltaic plant in Singapore. The test-bed project is to explore whether the use of this type of installation on water is advantageous and environmentally compatible.

JULY

Major contract 2: Our US subsidiary builds a solar power plant in Georgia with an output of 38.6 MWp, making it the largest contract in the history of the company.

Follow-up contract from Saudi Arabia: Phoenix Solar adds another 1.8 MWp to the photovoltaic power plant on the premises of KAPSARC in Riad, Saudi Arabia. The decision is taken to step up activities in the Middle East.

SEPTEMBER

Flagship project in Singapore: We build the largest photovoltaic power plant to date in Singapore for a trading company and equip the prestigious new Sports Hub with a sophisticated rooftop power plant.

OKTOBER

Awards ceremony at the Singapore solar trade show: Phoenix Solar wins three of a total of five awards conferred for innovative and sustainable projects and products.

NOVEMBER

New contract won in the Middle East: Phoenix Solar builds Jordan’s largest photovoltaic power plant to date to supply electricity to a new residential community to be built in the south of the country.

DECEMBER

With a view to promoting the company’s growth path, the Supervisory Board appoints Olaf Laber to the Executive Board of Phoenix Solar AG with effect from 1 January 2014.

GROUP MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2013

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1 EVENTS AND RESULTS IN THE FINANCIAL YEAR 2013

In the financial year 2013, Phoenix Solar AG achieved consolidated revenues of EUR 141.2 million reflecting decline of 9.1 percent in a year-on-year comparison. Nonetheless, earnings before interest and taxes (EBIT), which posted EUR - 1.4 million, increased significantly compared with the previous year (EBIT 2012: EUR - 31.8 million). This result also includes the cost of the last restructuring phase amounting to EUR 1.9 million. The consolidated net result for the period earmarked for the shareholders stood at EUR - 10.7 million (2012: EUR - 37.3 million). The loss per share posted EUR 1.45 (2012: EUR 5.06).

This positive development is due to far-reaching changes decided over the course of the financial year which were initiated and successfully implemented. In February 2013, the decision was taken to fundamentally realign the corporate strategy, a process which has been meanwhile completed. Phoenix Solar AG divested itself of loss-making divisions operating in markets where a quick recovery was not anticipated owing to ongoing changes, also in terms of the regulatory environment. This decision also affected the trading and project business managed from Germany which was discontinued in its current form. Alongside the trading and project activities of its international subsidiaries, Phoenix Solar has retained the profitable business of operating and maintaining solar power plants, run from its Ulm location, and is focusing on developing new business models for project and trading activities.

After many years of successful service to the company, Dr. Andreas Hänel resigned from the Executive Board on 11 February 2013, prior to the end of his term of office effective 28 February 2013. As a founding Board member, he brought Phoenix Solar AG to the stock exchange in 2004; the shares of the company were listed on the TecDAX from 2008 until 2011. Dr. Hänel headed up the company with great dedication, also during the difficult phase of restructuring. At the same time, the Supervisory Board appointed Dr. Bernd Köhler to the position of Chief Executive Officer, effective 1 March 2013.

Similar to the restructuring measures in 2012, this strategic realignment was flanked by consistent implementation management. Weekly in-depth discussions and monthly steering committee meetings supported the timely realisation of the necessary measures and ensured that the managers and employees involved were extensively informed. This restructuring programme focused solely on the German locations and has the following key components:

- **Personnel adjustment:** The aim was to reduce the number of employees in Germany to around 35. The respective measures have been completed.
- **Downsizing processes and office space:** Part of the process of terminating the project and training activities operated from Germany in their previous form and the associated capacity adjustments involved adapting processes, abolishing or redesigning them to a great extent. At the same time, the office space required was more than halved. The activities entailed by these measures and contractual negotiations have been concluded.
- **Winding down the project and trading business:** The business of the segments still operated in their previous form was settled, controlled and wound down with the satisfaction of our customers in mind. All the necessary measures have been finalised.
- **Adjusting of the commercial processes:** The strategic realignment and, in particular, the focusing of operations on international markets necessitated changes to the commercial processes as well as corporate management and control. The requisite measures have been concluded, and the necessary instruments introduced.

- **New business models and volume growth, operation and maintenance services (O&M):** In Germany, the company will be focusing in future on new business models, both in the Power Plants segment and in the Components & Systems segment, which are virtually self-sufficient and do not rely on regulatory support. The current status in the development of the associated concepts is proceeding according to plan. The first sales activities were initiated in a pilot region. Ongoing implementation will be monitored in the context of normal operations management.

Since then operations have also been focused on the high-growth regions of Asia and the USA. Over the course of the second and third quarter, the subsidiaries in these regions reported new orders in a notable volume which made a major contribution to exceeding the company's assumptions for earnings. The subsidiary in Oman also won the contract for a follow-up project to be carried out jointly with the Singapore company. After careful consideration, this contract prompted us to retain our business in this region. By contrast, the business of the European subsidiaries was extremely slack owing to the difficult environment.

As before, the Group's financing is assured via Phoenix Solar AG. The Group's new strategic direction, aimed at enabling it to return swiftly to profitable growth, was discussed in depth and agreed with the financing banks. The company signed an amendment to its existing loan agreement on 11 February 2013. Under this amendment, the overall financing volume was revised slightly downwards to around EUR 126 million. The term of the financing was prematurely renewed for another year, from formerly 31 March 2014 to 31 March 2015.

2 EVENTS AFTER THE REPORTING DATE

APPOINTMENT OF NEW MEMBER OF THE EXECUTIVE BOARD

In December 2013, the Supervisory Board appointed Olaf Laber to the Executive Board. He took up office on 1 January 2014 and has been responsible since then for New Business Models and Information Technologies as well as business in the regions of Germany, Europe and the Middle East.

INSOLVENCY FILING OF THE ITALIAN SUBSIDIARY

Owing to the particularly unfavourable economic and political framework conditions in Italy, the business of our local subsidiary increasingly lost momentum as the year 2013 progressed and, towards the turn of the year, came under increasing pressure. Against this backdrop, all facets of the situation and courses of action were carefully weighed up with the management of the subsidiary and finally, on 12 March 2014, insolvency proceedings were instituted. As a result, operating activities in Italy have ceased completely.

Assets and liabilities of the subsidiary are being accounted for at insolvency values in the Group financial statements.

This measure will not have any material impact on the Group's earnings, financial and assets position.

REGROUPING OF THE US SUBSIDIARY

In January 2014, the subsidiary in the USA was transferred to Phoenix Solar America GmbH, a newly founded intermediate holding company. Alongside structural aspects, this measure was aimed at leveraging valuation reserves, thereby strengthening the equity base of Phoenix Solar AG.

3 BACKGROUND INFORMATION ON THE GROUP

3.1 LEGAL STRUCTURE

Phoenix Solar is a photovoltaic system integrator which operates on an international scale. 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. As of 31 December 2013, nine subsidiaries and twelve project companies were assigned to the parent company, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

The principal place of business of Phoenix Solar AG is Sulzemoos near Munich. The central departments were managed from this location in the financial year 2013.

Corporate Strategy & Business Development, Global Sales, Technology & Innovation, Marketing and Public Relations as well as Quality Management were the responsibility of Dr. Andreas Hänel, the then Chief Executive Officer, until his departure from the company. Dr. Bernd Köhler, Chief Financial Officer, was responsible for Finance, Personnel & Organisational Development, International Process & IT Management, Controlling & Internal Audit, Investor Relations and Legal & Compliance as well as Procurement and Logistics. Following the resignation of Dr. Andreas Hänel from the Executive Board, the central departments previously managed by him and still operational under the new business strategy were then assigned to Dr. Bernd Köhler, who was also appointed Chief Executive Officer. Dr. Murray Cameron heads up business activities in Asia and in the USA. He combines the positions of CEO and president of the US subsidiaries.

The Supervisory Board appointed Olaf Laber to the Executive Board with effect from 1 January 2014. Since then, Mr. Laber has been in charge of New Business Models and IT Management departments as well as for the business activities in Germany, Europe and the Middle East.

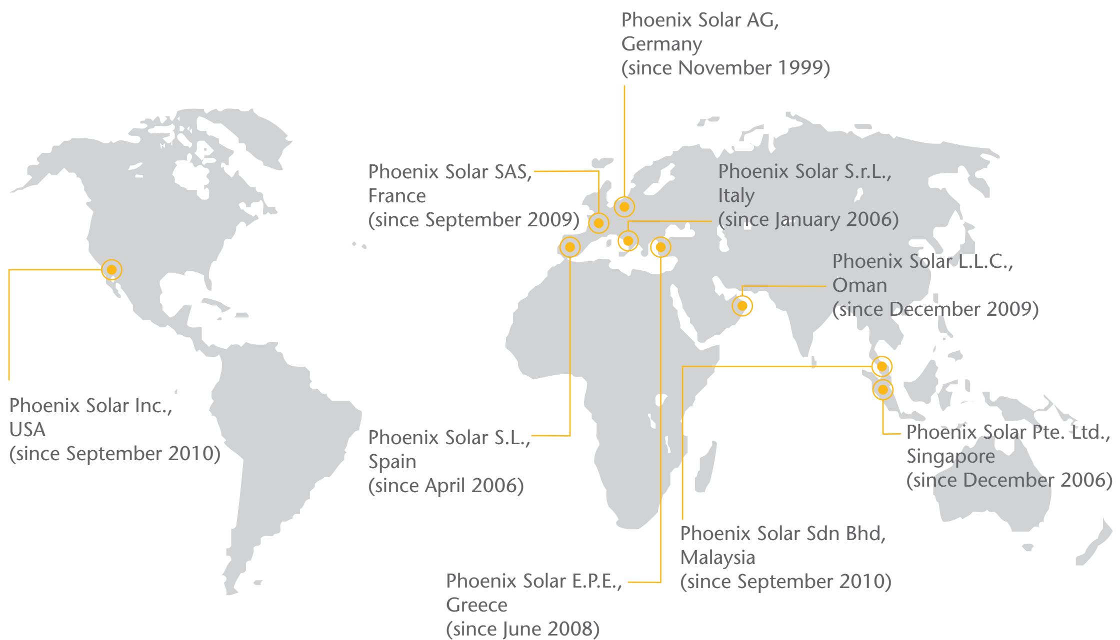
The shares of Phoenix Solar AG have been admitted for trading on the Frankfurt stock exchange since November 2004 and are listed in Prime Standard of Deutsche Börse AG. Detailed information on the stock market environment, the performance of Phoenix Solar's share, our investor relations activities and key facts and figures on the share of Phoenix Solar AG can be found in the section entitled "Phoenix Sonnen-Aktie®" of this Annual Report.

3.2 LOCATIONS

Phoenix Solar AG maintains an active presence in key photovoltaic markets through its subsidiaries and representative offices and offers its products and services on a worldwide basis. The company is currently represented on three continents through its operating subsidiaries. In Europe, it conducts business in Germany, France, Italy, Spain and Greece. The subsidiary in Singapore has served the fast-growing markets of Southeast Asia, including the Philippines and Thailand, for example, and coordinated the Group's business in that region for the last seven years. The business activities of subsidiaries in Rome, Italy, were wound down in the first quarter of the financial year 2014.

Apart from the company's headquarters in Sulzemoos near Munich, the Group maintains important locations in San Ramon, California (United States), Singapore, Lyon (France), Athens (Greece), Muskat (Oman), San Sebastián (Spain), Kuala Lumpur (Malaysia) and Ulm (Germany).

Company locations (as of 31 December 2013)



3.3 BUSINESS SEGMENTS AND BUSINESS MODELS

As a photovoltaic system integrator with global operations, Phoenix Solar plans, builds and operates large photovoltaic power plants. It is also a specialised wholesaler of complete solar power systems, solar modules and accessories. This strategy is reflected in the operations of the Power Plants and Components & Systems segments. As a general rule, this division of business is also replicated in the subsidiaries, subject to local adjustments. The US subsidiary, for instance, has only been active in the project business so far.

Business Model

In addition to supplying individual components for photovoltaic plants, the Components & Systems segment also develops tailored system solutions, provides planning support and offers logistics and other services. The customers of this segment include resellers and installation companies.

The range of products and services on offer in the Power Plants segment comprises the necessary planning services and the turnkey construction of photovoltaic systems, including their subsequent operation and maintenance. We supplement this range of products and services through other services, particularly in the USA. We also support our customers in coordinating, securing and realising the necessary financing, as well as in dealing with complex formal approval procedures. We have qualified and experienced employees at hand for these services as well. The Power Plants segment's customers include small and large companies from trade, industry and commerce, alongside private individuals. Other target customers are institutional investors either seeking to set up investment fund models or to hold large-scale photovoltaic plants in their own portfolios.

This business model enables Phoenix Solar to cover all sizes of grid-connected photovoltaic systems, from rooftop systems with a small peak output of one kilowatt (kWp) mounted on private homes to large power plants of up to 50 MWp.

Since Phoenix Solar operates in the market as a manufacturer-independent photovoltaic systems integrator, research and development are not core functions of the company; no research and development expenses are incurred at all, or to a very limited extent.

As a manufacturer-independent systems supplier, Phoenix Solar is nevertheless at the cutting edge of technology at all times. Furthermore, it can tailor its offering of products and services to suit the specific requirements of individual customers and regularly adds new technologies and innovative products to its existing portfolio, thereby offering its customers optimal solutions at a good cost/benefit ratio. With this in mind, we screen the entire market in order to be able to offer our customers the best solutions at all times.

In 2013, the Phoenix Solar Group fielded a broad-based product portfolio for photovoltaic systems of all dimensions, which allows us to respond flexibly to the individual requirements of our customers. Our range of products comprises in particular solar modules based on various different technologies. Phoenix Solar was therefore not dependent on a specific module technology but was able to offer photovoltaic systems designed to take account of customer needs and developments in the market.

One of the central services of the Phoenix Solar Group was provided by the operation and maintenance of photovoltaic power plants located in Ulm (Operation & Maintenance, O&M). O&M ensures seamless operation geared to maximising the return of power plants with an output of more than 200 MWp all over the world. Business is based primarily on long-term contracts with fixed conditions.

In 2013, great changes took place in the product and service portfolio, above all in the German market. Phoenix Solar ceased to develop its own Photovoltaic sub-structures. Instead a team of employees was entrusted with developing new business models and offerings to enable customers to realise substantial benefits from investing in photovoltaic independent of feed-in remuneration or other government-backed measures.

Since the end of 2013, a pilot phase of this offering has been running in a defined region. Our offering focuses on small, standardised Photovoltaic systems for the rooftops of private households installed by companies under contract at a fixed price. They have been designed to a size which allows customers to use most of the electricity they generate themselves, thereby significantly reducing their electricity costs. The systems amortise within a period of eight to ten years. Under this line of business which is allocated to the Components & Systems segment, we also address end customers directly for the first time.

3.4 EMPLOYEES

During the course of financial year 2013, the workforce of Phoenix Solar AG and the Group (excluding Executive Board members, but including temporary staff) was reduced from 228 to 120 employees. Taken as an annual average, 147 full-time positions were filled (2012: 256). The substantial decline was attributable first and foremost due to the decision taken in the first quarter to close the project and trading business in Germany in its form at that time. Personnel reduction was carried out on the basis of a reconciliation of interests and redundancy plan agreed with employee representatives.

Relinquishing business in Germany as it was then, and the associated focus on the growth regions of the USA and Asia resulted a considerable increase in the share of employees in our international subsidiaries over the course of the year in comparison with the Group's total workforce. As of 31 December 2013, around 59 percent of all employees were employed in the service of our subsidiaries (31 December 2012: around 26 percent).

In the financial year 2013, employees from 17 nations and all age groups with a wide variety of backgrounds were working in the group of Phoenix Solar AG. Of the workforce, 33.1 percent (excluding Executive Board members, trainees and temporary staff) were women (2012: 32 percent); at the end

of the financial year 2013, the share of women holding second-level management positions stood at 37.5 percent. At year-end 2013, four trainees were also employed by Phoenix Solar AG. Alongside the education and training of young people, we place importance on the development and training of our employees and offer the relevant programmes.

4 GENERAL CONDITIONS

In each of our individual markets, demand for our services depends to a great extent on whether private individuals or entities, the public sector and private companies are prepared to invest in photovoltaic systems. This willingness most certainly entails a political and ethical dimension. The desire to make a contribution to protecting the environment and resources by using renewable energies is a widespread motive. However, no concrete data is available on the form this takes and the influence it exerts in engendering action.

It can generally be seen as one of the world's greatest challenges, namely to secure a safe, affordable and sustainable supply of electricity for the world's growing population or fundamentally to establish such a supply. Subsidies promoting electricity generation continued to climb in 2012. Electricity won from fossil fuels was subsidised in excess of EUR 540 billion across the world compared with governments investing funds of only around EUR 100 billion in promoting the expansion of renewable energies.

Global demand for energy doubled over the period from 1990 to 2011, and continues to grow. Depending on factors of influence such as greater energy efficiency, policy-led energy savings measures or technical progress, demand is set to grow from around 19,000 terawatt hours (TWh) in 2011 to between approximately 28,000 TWh and 34,500 TWh by 2035. The share of renewable energies in generating this volume is likely to have increased from currently 20 percent to 31 percent by 2035.

Photovoltaic brings its benefits to bear in satisfying this growing demand: Solar electricity does not affect the climate and can be generated locally, also in small units, with minimal input. Its capacity will have increased ninefold by 2035 and, in the most likely scenario of the World Energy Outlook 2013, will be delivering around 3 percent equating to approximately 950 TWh of the output required for global energy consumption.

Whereas economic considerations of the costs and benefits of integrating renewable energies into the energy supply system is exerting an increasing influence on politics, the direct commercial consideration is uppermost in the minds of individual customers.

The commercial dimension of willingness to invest in photovoltaic is initially part and parcel of the question of how far the investor can trust in framework conditions on the local energy market to offer the necessary legal and planning certainty. Assuming that this is the case, the return generated by a photovoltaic system then becomes decisive which, in turn, depends on various factors. The amount of investment, meaning the level of capital required, is directly associated with how much the modules and other components cost. If funds are borrowed, the financing conditions also affect the return.

Depending on the market conditions, earnings generated may depend on the feed-in remuneration granted or the selling conditions; in some places, the tax relief granted. As, in the meantime, the consumption of solar electricity generated by individual households is much cheaper in many places than buying from the local energy supply companies, the savings made, i.e. the difference between the cost of producing and of buying energy, is becoming increasingly important.

The International Energy Agency believes the electricity price will continue to develop in future in close correlation with the price of fossil fuels. It therefore anticipates that electricity prices are set to climb worldwide. It may take around ten years before the price level in many countries stabilises or even marginally declines.

4.1 PROCUREMENT MARKETS AND PRICE TRENDS

Following steep descents in 2011 and 2012, the prices of solar modules have meanwhile stabilised. In Germany, for instance, spot market prices at year-end averaged around EUR 0.52/Wp for Chinese modules and around EUR 0.69/Wp for European polycrystalline modules. This signifies an increase of around ten to twelve percent over the course of the year. Market observers do not anticipate significant changes for the time being, within a certain fluctuation range, either to the positive or negative. It can therefore be assumed that, given this module price level, the construction of photovoltaic systems can still take place at costs which allow their profitable operation before taxes and levies.

As far as the different module technologies are concerned, thin-film modules continued to lose market shares in 2013. The Phoenix Solar Group has meanwhile fully focused its portfolio on crystalline modules. As we decentralised procurement at an early stage, the international subsidiaries outside Europe remained unaffected by the procurement situation within the European Union (EU) and were able to secure a supply of modules at stable conditions.

As part of realigning business in Germany, Phoenix Solar relies on a smaller group of brand manufacturer suppliers with a good track record. In operational handling, we take external service providers under contract which are able to offer specialised services for the new sales concept in the areas of contract implementation and logistics.

The market environment in Europe in 2013, as well as partly in the USA, was influenced by the political discussion about the anti-dumping proceedings instituted against modules imported from China. Under the EU directive on minimum prices for Chinese modules and cells, the general pricing of photovoltaic modules in the EU has risen. Further cuts to feed-in tariffs or constraints on other funding instruments have put another damper on the demand for photovoltaic systems in the EU area.

Higher import barriers and waning demand within the EU have resulted in Chinese manufacturers reducing their customs warehousing inventories in European ports. The delivery periods for Chinese modules have therefore returned to between four and six weeks. The same applies to module deliveries from other Asian countries.

Whereas the significance of the EU area as formerly the largest sales market for Chinese manufacturers has waned, sales markets of these manufacturers within China and other international markets, such as the USA and Japan, have grown. The pricing of modules has therefore developed depending on the specific region.

4.2 SALES MARKETS

4.2.1 USA

The USA is one of our most important sales markets. By 2013, we were already generating a good 38 percent of our consolidated revenues, and we anticipate further, absolute and relative growth in 2014 and in the years thereafter. The USA is currently in the process of transition, from a huge energy importer to an exporter of coal, oil and gas. Thanks to the discovery of new reserves of natural gas, and the ensuing decline in gas prices, coal in the production of energy is currently being increasingly displaced by gas.

The energy markets are largely liberalised and structured as market economies. However, general framework conditions regulated at federal level partly prevail across the board; there are, however, considerable differences in the legislation valid for the individual federal states.

Specifically, a high degree of legal and planning certainty can be assumed. Under Obama's government, the USA has participated more intensively again in the international discussion about climate protection targets and initiated various measures to promote renewable energies, and thus also solar technology, at government level as well as at the level of the individual federal states. Such measures include first and foremost tax relief at federal level (Investment Tax Credit, ITC), with discussions currently under way on its renewal beyond the former term envisaged in 2016. Many federal states have imposed quotas on energy supply companies regulating how much electricity they must provide in future from renewable forces. The energy supply companies are endeavouring to fulfil these covenants by operating their own power plants or by sourcing solar electricity from direct sellers. These structures as well as the surface area available have encouraged the construction of very large ground-mounted power plants. At the same time, however, the number and the accumulated output of newly installed mid-sized and smaller systems is growing significantly.

Another argument for using photovoltaic lies in the steady increase in the price of electricity. Average electricity prices for companies as well as for private households in the USA have risen over the period from 2003 to 2012, by 36 and 40 percent respectively. We therefore anticipate that own consumption solutions will also meet with a growing market in this country.

Overall we expect a newly installed output of 5.2 gigawatt peak (GWp) in 2014 and further growth of 25 percent to 6.5 GWp worth of installed capacity in 2015.

4.2.2 SOUTHEAST ASIA/THE MIDDLE EAST

We generated around 28 percent of our consolidated revenues in the regions of South East Asia and the Middle East in 2013 which are served by our subsidiaries in Singapore, Malaysia and Oman. This said, we have to deal with very different environments in the individual countries.

The countries in the Gulf region – formerly OPEC core countries and a major factor in the global energy markets – have lost influence in tandem with the pace at which new extraction regions and technologies have been developed outside their sphere of influence. At the same time, awareness is growing in the region that their own resources are finite and that new business models need to be developed. In order to accommodate growing local electricity consumption while maintaining the high export quotas of oil and gas, most countries in the region have opted to expand renewable energies and are planning the requisite large-scale power plant projects. Consequently, demand here is largely generated from public-sector and political stakeholders. Actual implementation is, however, considerably hampered by high administrative hurdles and protracted approval procedures. With the commissioning of KAPSARC I and the construction of KAPSARC II, we are proud to have built Saudi Arabia's largest ground-mounted power plants to date.

In contrast, the energy markets in Singapore and in most countries in Southeast Asia are completely deregulated. Traditionally electricity in these countries is exclusively sourced through the combustion of oil and gas, with partly intensive subsidisation of the use of fossil-based sources of energy. Indonesia, for example, subsidised the use of crude oil by providing funds in excess of USD 20 billion in 2012. Electricity customers whose electricity prices are comparatively low albeit with considerable regional differences, also within the individual countries, reaped the benefit of this as well. In Thailand, for instance, prices were below 0.01 €/kWh in 2012, on the Philippines industrial customers on the peninsula also paid less than 0.01 €/kWh, compared with prices of 0.56 €/kWh on some of the islands.

Many countries in the region have meanwhile announced ambitious expansion targets for renewable energies and initiated the requisite subsidy programmes. A case in point is the Philippines which want to treble their solar electricity capacity to 15.3 GWp over the period from 2010 to 2030. The island country can also promote the supply of electricity to remote areas through expanding solar power; currently only a good 70 percent of the country has access to electricity. Alongside a feed-in tariff, funding takes the form of tax relief, subsidised loans and the promoting of own consumption from off-grid systems by making subsidies available and a net metering model for grid-connected systems since July 2013.

Thailand, on the other hand, plans to expand its photovoltaic capacity to 2 GWp by 2021. In the process, more than half is to be generated by smaller systems, including rooftop systems on private households or business premises. The mechanisms deployed here also include feed-in tariffs and subsidised loans, ultimately also with a view to giving rural regions better access to electricity supplies.

Nonetheless, it should be noted that some government-backed measures are only implemented with considerable delays or inconsistently, which impairs predictability and causes uncertainty. At the same time, our subsidiaries in Southeast Asia are also recording rising demand for own-consumption solutions independent of specific monetary incentives.

Against this backdrop, we anticipate newly installed capacity of 3.7 GWp in 2014 and further growth of almost 30 percent to 4.8 GWp in 2015 in the countries we serve in the regions of Southeast Asia/the Middle East.

4.2.3 EUROPE

The situation in all European markets is characterised by pronounced instability and legal uncertainty in the face of the ongoing sovereign debt crisis and the ensuing endeavours of the various governments to

consolidate. In the European countries addressed by our subsidiaries demand has been driven by government-backed measures for a long time; generally satisfactory feed-in tariffs were granted. However, these tariffs were abolished in many instances, with existing power plants being subsequently and partly retrospectively burdened with taxes and levies.

In addition, loans granted to companies and private households are also in decline despite the low interest rate level. This trend even steadily accelerated over the course of 2013, making it increasingly difficult for potential investors to borrow funds.

The combination of these factors has led to considerable uncertainty for potential buyers and investors and resulted in the photovoltaic market completely drying up in some countries. All in all, investments in generating power from green energy declined by 41 percent throughout the whole of Europe in 2013. Phoenix Solar AG's business in Europe generated a share of only 23.5 percent in consolidated sales in 2013 compared with in 2012 when it was still generating 44.9 percent.

Italy: Italy's electricity market continues to be dominated by Enel, the state monopoly, which satisfies more than a quarter of the national electricity demand. Despite the high volume of investment in expanding the grid, obsolete coal-fired power plants continue to hallmark the Italian infrastructure. The promotion of photovoltaic through the five stages of the Conto Energia programme ended in July 2013. The use of self-generated solar electricity is still possible in principle by way of net metering. As before, there are, however, high administrative hurdles at the regional level and, similar to economic life overall, there is a relatively high degree of uncertainty in the face of bureaucratic inadequacies and political imponderables. Project financing is also problematic as the banks require commitment in the form of collateral or upfront private financing from planners and developers. Against this background, we are winding down all operating activities in Italy.

Spain: Although the Spanish energy market was liberalised in 2009, it is dominated by the Endesa and Iberdorla utilities duopoly in real terms. In the interest of securing continuity in the supply of energy, the Spanish government assumed large-scale guarantees for the debts of the electricity sector, most recently in January 2014 for another EUR 4.8 billion in funds freshly borrowed in 2012. The funds at the centre of the debate were also earmarked to satisfy claims formerly granted under programmes to subsidise renewable energies.

Although the expansion target of 8 GWp through to the year 2020 has not been formally abolished, a plethora of difficulties and constraints have been gradually introduced since 2010 which make investing in solar power plants unattractive. At the start of 2014, the Spanish government introduced another cut in the return on photovoltaic plants. In line with these plans, the feed-in tariff is to be reduced by another 45 percent. The ongoing changes in the environment, the lack of regulations governing own consumption and significant hurdles in grid connection, compounded by other ponderous administrative processes, have severely impaired the development of Spain's photovoltaic market. Introducing suitable net metering legislation could provide new impetus.

France: As opposed to Germany, France still firmly upholds the use of nuclear energy. Its energy market and infrastructure remain dominated by a monopolistic structure in the shape of state-owned Electricité de France. However, approximately 16 percent of the electricity consumed is already generated by renewable sources. The electricity prices paid by industrial customers stood at below 0.10 €/kWh in 2012/2013, and at 0.14 €/kWh for private households.

All in all, the Republic of France continues to promote renewable energies to a considerable extent. The expansion target for photovoltaic was fixed at 5.4 GWp by 2020. Funding instruments consist of a system of feed-in tariffs on a sliding scale, tax relief and rolling depreciation of photovoltaic power plants. However, the French electricity grid depends to a great extent on the supply of electricity to customers by a few large-scale power plants. Technical and administrative hurdles stand in the way of connecting new solar power plants.

The French government under President François Hollande has already announced further activities to promote renewable energies in 2014 as well its intention of cooperating with Germany in matters affecting the grid infrastructure and energy policy. Negotiations at the political and association level have been initiated. Photovoltaic may also continue to benefit from these generally stable political and economic framework conditions.

Greece: Despite initial steps towards reform and liberalisation initiated in the year elapsed, the Greek electricity market remains dominated by PPC (Public Power Corporation), the state-owned energy supply company. Similarly in 2013, measures were passed to reform the end consumer market and make headway towards achieving EU targets. A new sliding scale of electricity prices was introduced in August with the aim of enabling industrial enterprises in particular to reduce their electricity costs.

Apart from better decentralised power supply also from smaller off-grid solutions, promoting photovoltaic continues to be influenced by plans to act as an energy exporter in future with larger scale power plants. Excluding this "Helios" project, the aim is to expand solar electricity to 2.2 GWp by 2020. Nonetheless, a tax on solar power was introduced in 2012 and the feed-in tariffs significantly cut in 2013; as from August 2014, power plants of less than ten kWp will no longer be eligible for subsidies. These political measures have engendered a great deal of uncertainty in the market which the meanwhile considerable improvement in legal and planning certainty as to administrative procedures has failed to compensate. For this reason, and owing to difficulties in borrowing, investment activities in solar power plants have ground to a virtual halt since mid-2013.

We nonetheless assume that the legislation announced to facilitate own-consumption solutions as part of the net metering model will provide the Greek market with stimulus.

The 2013 annual report of the European Photovoltaic Industry Association (EPIA) predicted an installed output of around 3.9 gigawatt peak (GWp) in 2014 – taken as an average of the two scenarios it describes for the European countries we serve (excluding Germany) – and further growth of 16 percent to 4.5 GWp by 2015. Given the actual, considerably weaker development in the second half of 2013, after publication of this annual report, we have significantly revised our internal market assumptions downwards in view of these figures.

4.2.4 GERMANY

In February 2013, we took the decision to almost fully relinquish our business in Germany in its prior form. We have retained our operation and maintenance services in our Ulm location as well as a team which was tasked with developing new business models independent of subsidy mechanisms under the Act on the Priority of Renewable Energy Sources (EEG) and is currently testing its implementation in a pilot region. Consequently, the share of Germany in consolidated revenues halved to 14.8 percent in the financial year 2013 (2012: 29.9 percent).

This decision was taken against the backdrop of the drastic changes in Germany's framework conditions. The high proportion of renewable energies already achieved in gross electricity consumption (2012:

23.6 percent) led to a drastic downturn in the marginal costs across the entire electricity industry, with the result that in principle only power plants already amortised and frequently detrimental to the climate can continue to operate at breakeven. From the standpoint of grid safety, and therefore of the supply of energy overall, more flexible, adjustable new gas power plants would be needed.

Moreover, at the start of 2010, upon the entering into force of the Ordinance on a Nationwide Equalisation Scheme, the development of the EEG levy (surcharge under the German Renewable Energies Act) was decoupled from the actual installation of plants generating electricity from renewable energies. The resulting disproportionately high increase in this levy on almost all electricity consumers was used by the German government as grounds for reviewing the promotion and expansion of renewable energies on several occasions and for even fundamentally calling it into question. At the time this annual report went to press, the bill drafted on a reform of the German Renewable Energies Act made the commercial operation of power plants producing solar electricity with the nominal output of more than 10 kWp more difficult. Particularly onerous is the levying of an EEG surcharge on electricity produced and consumed at the same point. Moreover, the swift series of interventions in German Renewable Energies Act have put paid to the trust in the legal and planning certainty in Germany.

Over the course of 2013, the volume of newly installed photovoltaic output already slumped to 3.3 GWp (2012: 7.5 GWp); the German government envisages a corridor of 2.5 GWp a year in the future. Against this backdrop, we anticipate that development in the German market will stagnate or even decline.

We have nonetheless begun to experiment by offering standard packages optimised for own consumption in the segment of small photovoltaic systems for households. Provided no surcharges are levied on these systems, they offer operators the opportunity of lowering their electricity costs, with the investment amortising within eight to ten years. This innovative offering may enable us to build up new positions in Germany even in a declining market.

5 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops the Group's business strategy and agrees it 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 programmes of photovoltaic products and systems. The medium-term goal is to serve markets at the earliest possible stage of their development and to develop new business models that are not dependent on state subsidies.

The individual tasks and collaboration at Executive Board level are governed by a schedule allocating responsibilities and by a set of bylaws. The Executive Board makes decisions on relevant topics and holds regular in-depth consultations on important developments in their individual remits. In addition to exercising their departmental responsibilities, the individual members of the Executive Board are also represented on the supervisory bodies and managerial functions of the subsidiaries, for instance in Singapore, the USA and France.

Furthermore, we make reference to the Declaration of Conformity by the Executive Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act which is included in the corporate governance report.

The Supervisory Board of Phoenix Solar AG, which consists of three members, advises the Executive Board and supervises its activities and decisions.

We deploy an integrated Management Information System (MIS) for the purpose of managing, controlling and monitoring our construction projects and trading business. The MIS comprises a complete set of monthly reports on the revenues and earnings of Phoenix Solar AG as well as on its subsidiaries and individual segments. Aside from the balance sheet, income statement and cash flow statement, the MIS also tracks a series of key indicators as a means of assessing the business performance of the integrated organisation units.

Business developments are monitored and variances against the budget are documented in monthly management reviews attended by the heads of the segments or national subsidiaries and the Executive Board. Depending on the amount and significance of variances against budget, appropriate countermeasures are adopted and implemented and the effects of such measures are monitored in subsequent management reviews.

Opportunities management is a regular topic in the management reviews which discuss business prospects and short- and medium-term measures to consolidate and improve business and monitors their implementation.

Key financial indicators in respect of the central goals of liquidity and profitability are particularly important especially in the process of restructuring and strategic realignment. At the same time, only a return to growth can secure the future existence of Phoenix Solar AG. For this reason, alongside the financial indicators cited in the section below, the sales-oriented parameters described are also key performance indicators for the Phoenix Solar Group used in the management and control of the company.

5.1 KEY FINANCIALS

5.1.1 REVENUES

The revenue trend reflects the success of our business and sales at the highest level. The costs and earnings forecast is based on concrete revenue expectations agreed with the operating units and central functions and coordinated and monitored on an ongoing basis.

5.1.2 EBITDA/EBIT

As a management and control parameter, EBITDA reflects our operating performance net of interest, taxes and depreciation and amortisation. EBIT takes additional account of depreciation and amortisation. Both are central parameters for managing Phoenix Solar's business, especially with regard to the subsidiaries, and a regular component of the management review.

5.1.3 EQUITY:

Equity comprises all components of the company's performance up to the present, including taxes. Seen from an accounting standpoint, equity is the difference between assets and liabilities. Particularly at Group level, equity plays an important role in the management and supervision of the Phoenix Solar Group.

5.1.4 UTILISATION OF THE CREDIT LINES

Credit lines worth around EUR 126 million were granted to the company in the context of syndicated financing. Keeping within these credit lines is crucial to the continued existence of the company. This said, liquidity planning and liquidity management are assigned a high priority, and drawdowns on credit lines are constantly monitored and controlled.

5.2 SALES-ORIENTED CONTROL PARAMETERS

Part of the management reviews consist in particular of closely and consistently monitoring and updating the following sales-oriented control parameters. In congruence with the logicality of the business model, these are rolling parameters which cannot be precisely planned or forecast in terms of specific periods or reporting dates. They are nonetheless key components in the process of ongoing management and control.

5.2.1 ORDER INTAKE

Although a high level of sales activity is a very sound basis, it is insufficient for a de facto return to sustainable growth. Achieving this goal requires the high level of activities to result in orders actually being placed. With this in mind, we regularly review and scrutinise the order intake figure.

5.2.2 OTHER

In addition, key indicators specific to the situation in individual businesses have been introduced and are monitored in order to record and manage particular developments.

5.3 COMPLIANCE AND CORPORATE GOVERNANCE

In order to observe and disseminate high ethical standards at Phoenix Solar, we established a new uniform compliance organisation binding on the entire Group in the third quarter of the financial year 2013. The compliance organisation reflects the changed positioning of the Group and encompasses a clearly structured set of guidelines and reporting procedures. It was approved by the Executive Board and the managers and communicated to the employees.

Other principles and procedures concerning corporate governance are described in the Corporate Governance Report which is printed in this annual report and available on the company's website at www.phoenixsolar-group.com under the Investor Relations heading, Corporate Governance.

6 COMPARISON OF FORECASTED WITH ACTUAL BUSINESS PERFORMANCE

When the annual financial statements for 2012 were published, the Executive Board released guidance for 2013 in which it projected a slight increase in revenues to between EUR 160 and 190 million and a negative operating result (EBIT) within a range of between EUR 7 and 2 million, thereby targeting an improvement in the results of EUR 25 to 30 million compared with 2012. This EBIT guidance included restructuring costs of around EUR 1.9 million incurred by strategic realignment.

At the end of the third quarter, the Executive Board defined this statement more precisely, indicating that revenues for the year as a whole were anticipated at the lower end of this range while the result before interest and taxes was expected more in the upper range of guidance.

Consolidated revenues actually achieved amounted to EUR 141.2 million, which is below the minimum predicted. In contrast, EBIT, which stood at EUR - 1.4 million, exceeded the projected range. Consequently, although sales revenues were lower than anticipated, we considerably improved the operating result before interest and taxes and outperformed the earnings originally announced.

Over the course of the year, among other things, it emerged that the development of Europe's solar markets fell significantly short of expectations, which was also reflected in the business of our southern European subsidiaries. In Greece in particular, another reduction in the feed-in tariff resulted in a dramatic slump in the market. The revenues of Phoenix Solar in European countries other than Germany declined to EUR 33.2 million in 2013 (2012: EUR 69.8 million). In 2013, Europe generated a share of a mere 23.5 percent in consolidated revenues compared with 44.9 percent in 2012. As a result, persistently weak developments in the market in particular and huge uncertainty as to the political and economic framework in Italy prompted us to wind down our operations in this country. By contrast, our companies in the USA and Asia delivered significantly higher revenues due first and foremost to acquiring several major projects.

In both these regions, we were able to generate above-average gross margins at the same time, which was a key factor contributing to achieving and even exceeding the targeted operating result. Moreover, special items from the disposal of material and the premature termination of service contracts in Germany in conjunction with the strategic realignment had an additional positive effect on the development of operating earnings.

7 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

7.1 RESULTS OF OPERATIONS

The year 2013 was initially influenced by the termination of the trading and project business in Germany. This assuredly draconian measure was nevertheless one that was necessary to secure the future of the entire Group. It was only due to this severe restructuring that Phoenix Solar was able to separate in time from its greatest loss-making businesses. The insolvencies of renowned competitors of Phoenix Solar AG clearly document the necessity of this decision. All in all, revenue expectations in 2013 were not fully met. However, successful work, particularly in the USA and Thailand, and positive effects in connection with the strategic realignment resulted in a significant increase in EBIT compared with the previous year, thereby enabling virtual breakeven at the operating level.

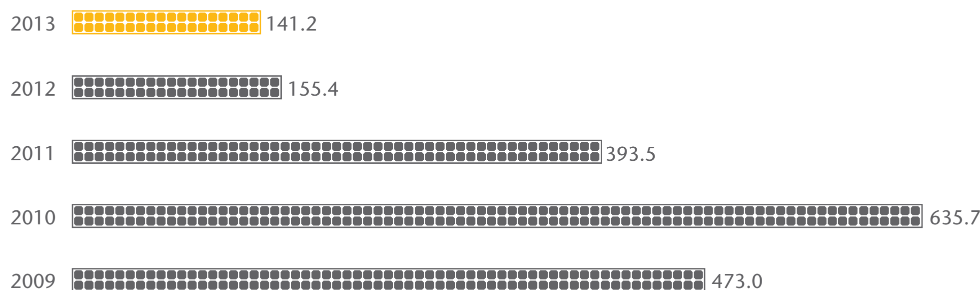
Development of Revenues by Segment and Region 2009-2013

		2013	2012	2011	2010	2009
Consolidated revenues	€ m	141.2	155.4	393.5	635.7	473.0
Change from prior year	%	– 9.1	– 60.5	– 38.1	34.4	17.5
C & S revenues	€ m	56.7	72.4	241.0	368.5	299.0
Change from prior year	%	– 21.7	– 70.0	– 34.6	23.2	39.3
Power Plant revenues	€ m	84.5	83.0	152.5	267.2	174.0
Change from prior year	%	1.8	– 45.6	– 44.8	58.7	– 7.3
Domestic revenues	€ m	16.7	46.4	168.5	471.2	445.3
Change from prior year	%	– 64.1	– 72.5	– 64.2	5.8	83.4
EU revenues, excl. Germany	€ m	33.2	69.8	187.9	162.3	22.8
Change from prior year	%	– 52.5	– 62.9	15.8	611.8	– 85.5
RoW revenues	€ m	91.4	39.2	37.1	2.2	4.91
Change from prior year	%	133.1	5.7	1,586.4	– 55.1	133.3

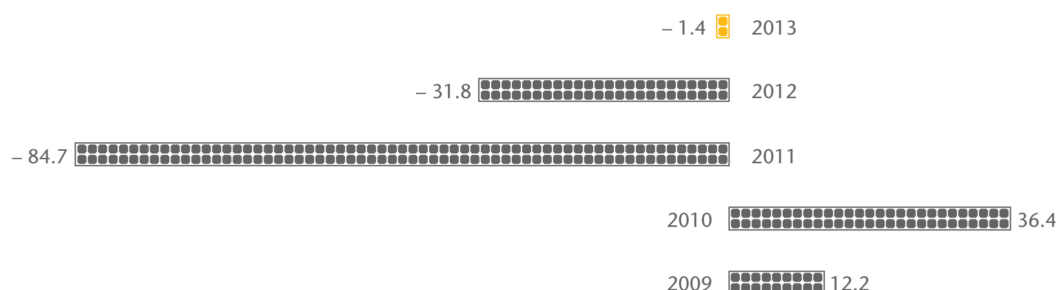
7.1.1 ANALYSIS OF REVENUES

Over the course of the year as a whole, the Phoenix Solar Group reported a decline in revenues of 9.1 percent, down EUR 14.2 million to EUR 141.2 million (2012: EUR 155.4 million). By contrast, the sales of photovoltaic power plants and modules decreased by only 3.1 percent to 126 MWp (2012: 130 MWp). The share in revenues generated by domestic business corresponded to 11.8 percent (2012: 29.9 percent), reflecting a drop of EUR 29.7 million to EUR 16.7 million, equivalent to a decline of 64.0 percent, owing to the termination of the trading and project business in Germany. International markets accounted for 88.2 percent of sales revenues (2012: 70.1 percent), with growth mainly generated by several major projects in the USA and Thailand.

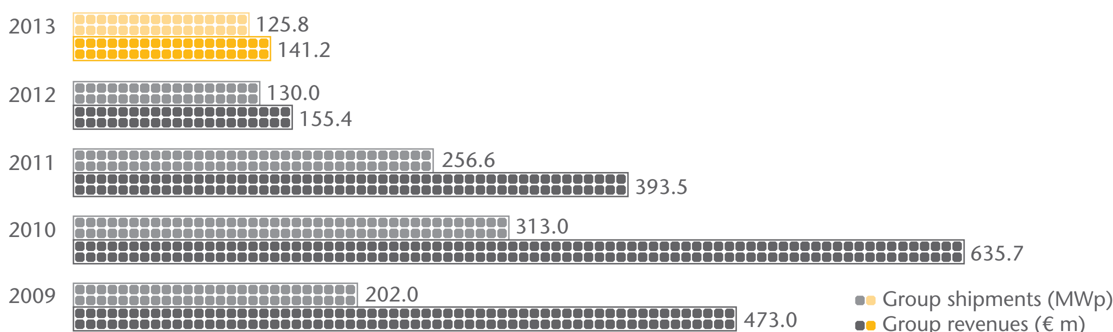
Revenues 2009-2013 in € m



EBIT 2009-2013 in k€



Revenues and shipments 2009-2013 in € m



7.1.2 EARNINGS WITHIN THE GROUP

As of the reporting date on 31 December 2013, orders on hand totalled EUR 65.0 million (31 December 2012: EUR 74.9 million), corresponding to a decline of EUR 9.9 million, the equivalent of 13.2 percent.

7.1.3 DEVELOPMENT OF THE SEGMENTS

Components & Systems

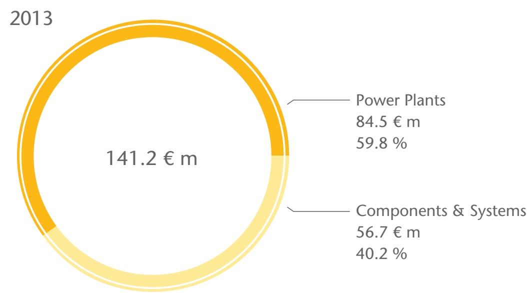
The Components & Systems segment fell short of the previous year's figures, mainly owing to the discontinuation of business in Germany. In the financial year 2013, this segment contributed a share of 40.1 percent (2012: 46.6 percent) to consolidated revenues. The revenues of the Components & Systems segment were attributable as follows: EUR 6.8 million (2012: EUR 38.0 million) were accounted for by Germany, with international markets generating EUR 49.9 million (2012: EUR 34.4 million).

As of 31 December 2013, the Components & Systems segment reported a decline in orders on hand, down EUR 34.4 million to EUR 1.4 million (31 December 2012: EUR 35.8 million). Only a small proportion of orders on hand were attributable to domestic operations (2012: EUR 1.4 million) whereas international orders posted EUR 1.4 million (2012: EUR 34.4 million). In 2012, a considerable portion of the order volume was contributed by major project in Thailand which was recorded in the Components & Systems segment owing to the way the contract had been structured.

In terms of consolidated EBIT, the Components & Systems segment generated a positive EBIT of EUR 1.8 million (2012: EUR - 9.8 million), reflecting the healthy margin situation of the aforementioned major project in Thailand.

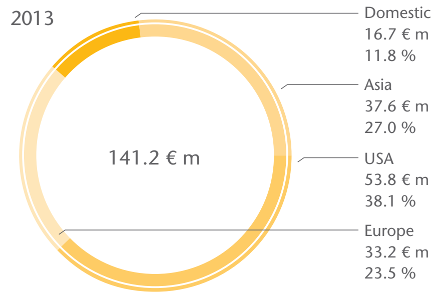
Revenues by segments

2013

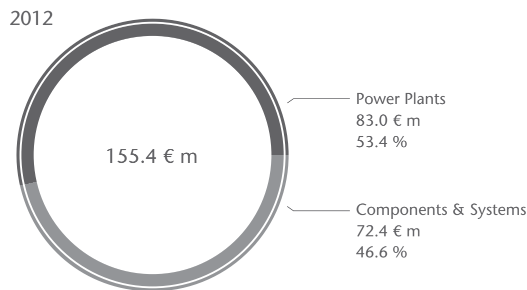


Revenues by region

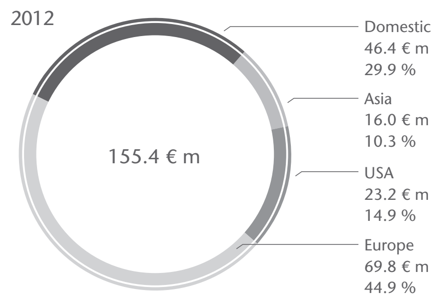
2013



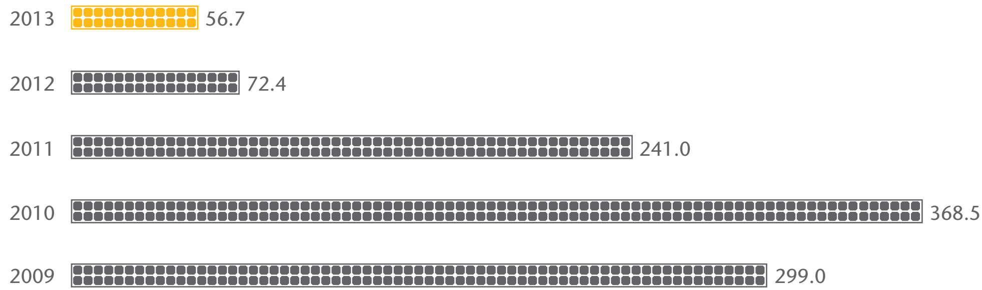
2012



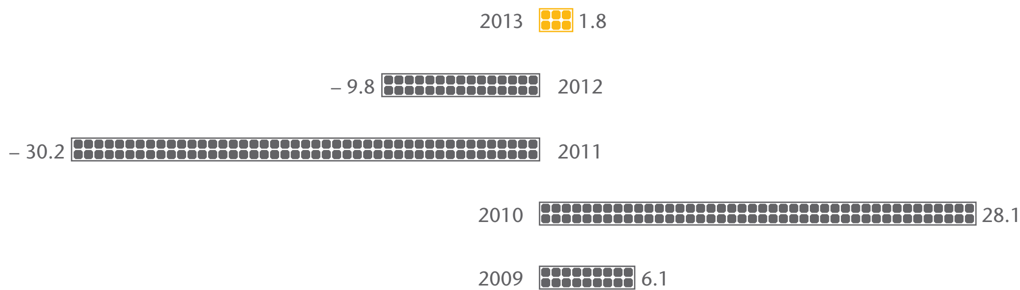
2012



Revenues Components & Systems 2009-2013 in € m



EBIT Components & Systems 2009-2013 in € m



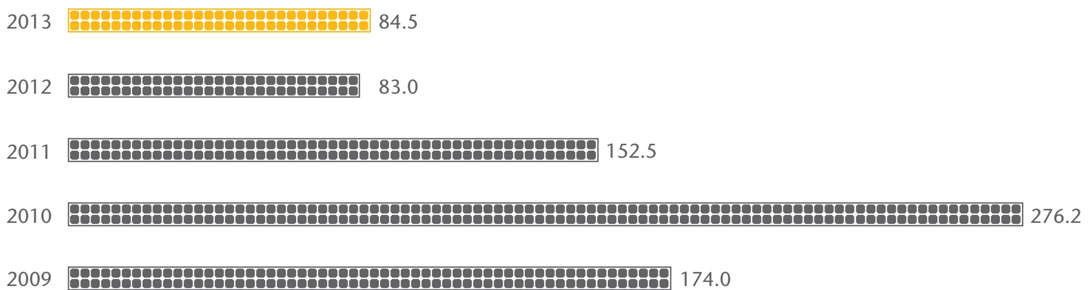
Power Plants

With revenues of EUR 84.5 million, the Power Plants segment made up 59.8 percent of consolidated revenues (2012: EUR 83.0 million, corresponding to 53.4 percent). Among other projects, the segment benefited from the construction of the largest power plant in the history of the Phoenix Solar Group by the US subsidiary. In this segment, EUR 9.9 million (2012: EUR 8.4 million) was attributable to domestic business and EUR 74.7 million (2012: EUR 74.6 million) to international business.

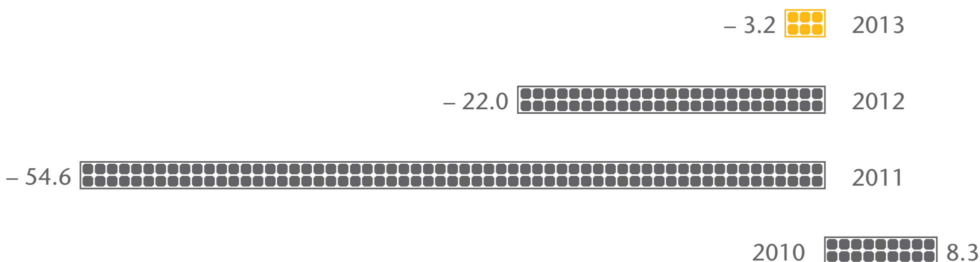
Orders on hand of the Power Plant segment had climbed to EUR 63.6 million by 31 December 2013, up 62.6 percent (31 December 2012: EUR 39.1 million), and consisted entirely of international orders (31 December 2012: EUR 32.8 million from international business; EUR 6.3 million from domestic business). This increase resulted mainly from the aforementioned major project in the USA. Adjusted for revenues recognised in respect of power plant projects in progress (available order book), net orders on hand stood at EUR 2.9 million as of 31 December 2013 (31 December 2012: EUR 18.1 million), which is 84.2 percent below the year-earlier figure. Essentially the difference between orders on hand and net orders is attributable to the almost full realisation of the major project in the USA as well as projects in France and Malaysia. Both major components of the Power Plants segment's orders on hand progress on a rolling basis and may therefore overstate or understate the business situation owing to the volatility inherent in the project business.

The Power Plants segment delivered an EBIT of EUR - 3.2 million in the financial year 2013 (2012: EUR - 22.0 million). The results of the US subsidiary, which exceeded expectations, were nonetheless insufficient to compensate for the negative results of this segment attributable to the European subsidiaries and expenses of the parent company against the backdrop of discontinuing the project business in Germany.

Revenues Power Plants 2009-2013 in € m



EBIT Power Plants 2009-2013 in € m



7.1.4 EARNINGS PERFORMANCE WITHIN THE GROUP

The swift adjustment to cost positions in conjunction with winding down the trading and project business in Germany was given the highest priority in the first quarter of 2013. With the good margins resulting from the disposal of material and positive non-recurrent effects in connection with terminating service contracts, the necessary measures were implemented even ahead of plan. At the same time, major projects in the USA and Singapore delivered significantly better results than initially expected. Although the result in 2013 was burdened in an amount of EUR 1.9 million from strategic realignment, for instance by provisions for severance payments, the company was nonetheless successful in achieving an EBIT of EUR - 1.4 million despite revenues diverging from budget. This figure represents an improvement of EUR 30.4 million, the equivalent of 95.6 percent, over the previous year (2012: EUR - 31.8 million) although EBIT in 2012 was burdened by costs for restructuring of around EUR 7.9 million. The consolidated result, which posted EUR - 9.3 million, also improved significantly in a year-on-year comparison (2012: EUR - 37.6 million).

7.1.5 DEVELOPMENT OF KEY ITEMS IN THE INCOME STATEMENT

Changes in inventory

The changes in inventory item reflect the increases and decreases in work in progress on orders. In the financial year elapsed, there were no changes in inventory (2012: EUR 3.3 million).

Other operating income

Other operating income of EUR 5.4 million (2012: EUR 7.8 million) included electricity income from photovoltaic plants held by the company amounting to approximately EUR 2.3 million (2012: EUR 2.4 million). Moreover, this item largely includes income from the reversal of provisions for anticipated losses (EUR 0.8 million) and accruals for liabilities under outstanding invoices (EUR 0.6 million). In addition, this item includes income from the reduction of value adjustments (EUR 0.4 million) above all.

Cost of materials/gross profit

The cost of materials fell to EUR 119.6 million, down 18.2 percent or EUR 26.6 million (2012: EUR 146.2 million) mainly due to the lower volume of business. Inventory write-downs declined further to EUR 0.7 million (2012: EUR 9.2 million) in the wake of discontinuing the trading and project business in Germany and the associated scaling back of inventories. However, this figure does not yet include impairment of project rights of the Spanish subsidiary due to non-realisability.

With a total operating performance of EUR 141.2 million (2012: EUR 158.7 million), gross earnings of EUR 12.6 million in 2012 therefore rose overall significantly by EUR 9.0 million, up 72.1 percent to EUR 21.6 million compared with 2012. This growth was due principally to the better-than-expected margins of the US and Singapore subsidiaries. In addition, positive non-recurrent effects on gross profit emanated from the disposal of material in Germany which exceeded budget, and the positive outcome of a court case which allowed for a retrospective price increase to be asserted for a project completed in 2010.

Personnel expenses

As of 31 December 2013, the Phoenix Solar Group employed a workforce of 120 staff (excluding Executive Board members but including temporary staff; 2012: 228), of whom 115 in permanent positions (31 December 2012: 215). Compared with the status on 31 December 2012, this corresponds to a decline of 108 persons which was largely caused by personnel reductions in Germany due to the strategic realignment. Taken an annual average, this translates into approximately 147 full-time positions filled (excluding Executive Board members but including temporary staff; 2012: 256). Personnel expenses came in at EUR 14.6 million in 2013 owing to the lower workforce numbers (2012: EUR 21.1 million), reflecting a decline of 30.8 percent in a year-on-year comparison. Compared with the previous year, the key indicator of revenues per full-time employee climbed from kEUR 607 in 2012 to kEUR 945 in 2013, despite the lower level of revenues. Expenses of approximately EUR 1.9 million were incurred in connection with the reduction of the parent company's workforce.

Depreciation, amortisation and impairment

At EUR 1.7 million, the depreciation, amortisation and impairment recognised in respect of intangible assets and property, plant and equipment were EUR 4.3 million lower than the year-earlier figure (2012: EUR 6.0 million). This decrease resulted primarily from impairment of the ERP system and other items of property, plant and equipment associated with the discontinuation of the trading and project business in Germany.

Other operating expenses

Other operating expenses dropped by EUR 12.9 million to EUR 12.3 million in 2013 (2012: EUR 25.2 million), which is 51.2 percent less.

Significant cost reductions compared to 2012 were achieved also through the parent company's strategic realignment, especially in the categories of other consultancy fees (EUR - 1.9 million), warehousing charges (EUR - 1.7 million), office building rental expenses (EUR - 1.6 million) and outgoing freight (EUR - 1.1 million). Other material reductions emanated from expenses from doubtful accounts (EUR - 0.9 million), appropriations to individual value adjustments (EUR - 0.7 million), the costs of legal advice (EUR - 0.6 million) and consultancy expenses incurred by EDP projects (EUR - 0.5 million). By reverse, the costs of warranties and other impairment rose by EUR 0.3 million respectively, along with expenses for freelance workers which increased by EUR 0.4 million.

Income from associated companies

The Phoenix 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 the financial year 2009. The share of this company's profit which is attributable to the Phoenix Solar Group amounted to kEUR 68.4 in financial year 2013 (2012: kEUR 49.5).

Earnings before interest and taxes (EBIT)

In 2013, earnings before interest and taxes amounted to EUR - 1.4 million (2012: EUR - 31.8 million), which corresponds to an increase of 95.6 percent in a year-on-year comparison. Although EBIT in 2012 was impacted by additional burdens of EUR 7.9 million in the context of strategic realignment, the significant increase in the result affirms the decision to discontinue the loss-bringing units in Germany. Calculated as a percentage of total revenues, the EBIT margin came to - 1.0 percent (2012: - 20.5 percent).

Financial result

The financial result of EUR - 5.1 million in the financial year 2013 marks an increase of EUR 0.4 million in comparison with the year-earlier figure (2012: EUR - 5.5 million). Financial income of EUR 0.1 million (2012: EUR 0.2 million) were offset by financial expenses of EUR 5.2 million (2012: EUR 5.7 million). Similar to the previous year, these financial expenses break down into EUR 2.3 million from interest and similar expenses as well as, also virtually unchanged from 2012, EUR 2.0 million from financing costs. Expenses for guarantee fees stood at EUR 0.9 million (2012: EUR 1.2 million).

Tax rate

In the period from January to December 2013, the Group's tax rate, defined as the ratio of tax expenses to the consolidated profit before taxes, amounted to - 44.1 percent (2012: - 0.8 percent). This change resulted mainly from lower losses combined with higher tax burdens, above all pertaining to the subsidiaries in Singapore and the USA which generated commensurately positive results. Moreover, in the context of testing the tax claims for impairment a valuation allowance was carried out in an amount of kEUR 975.

Consolidated profit/loss

Against the backdrop of the developments described above, the portion of the consolidated result attributable to the shareholders of the parent company and to minority interest amounted to EUR - 10.7 million (2012: EUR - 37.3 million) and EUR 1.4 million (2012: EUR - 0.3 million) respectively. Calculated on an average number of 7,372,700 shares, basic earnings per share stood at EUR - 1.45 (2012: EUR - 5.06). Since there were no material diluting effects as of 31 December 2013, there was only a slight difference between diluted earnings per share and basic earnings per share.

7.2 FINANCIAL POSITION

7.2.1 BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

As in previous years, the financial policy and financial management of the Phoenix Solar Group were aligned to the on-going restructuring of the company in 2013. Key measures included tight liquidity management and the rapid implementation of the strategic realignment in the German locations. At the same time, further liquidity-conserving measures, including for example the collection of receivables from former projects, was closely monitored and controlled. Similar to the preceding years, detailed cost management was a key component of the activities.

7.2.2 BORROWING

The financial liabilities disclosed in the report as at 31 December 2012 as a current item owing to the financing arrangements at that time were reported as noncurrent financial liabilities as of 30 June 2013. Under the amendment agreement concluded in the first quarter of 2013, the maturity date of the syndicated loan was extended until 31 March 2015. Current financial liabilities have therefore decreased by EUR 39.5 million to a value approximating EUR 0.0 million (31 December 2012: EUR 39.5 million). By contrast, noncurrent financial liabilities rose by EUR 40.3 million as opposed to the previous year when the figure reported was low. Of the committed cash credit lines, EUR 8.7 million and another EUR 11.0 million were available to cover requirements at short notice as of 31 December 2013.

7.2.3 CASHFLOW FROM OPERATING ACTIVITIES

In 2013, the cash inflow from operating activities stood at EUR 2.3 million (2012: cash outflow of EUR 9.2 million). Compared with the previous year, positive effects on the operating cash flow emanated from the lower level of loss and ongoing destocking as well as increases and decreases in assets. Moreover, tax back payments of EUR 5.7 million from an audit burdened the cash flow.

7.2.4 CASHFLOW FROM INVESTING ACTIVITIES

The business model of the Phoenix Solar Group does not fundamentally require a great deal of investment for the running of its operations. Cash outflow from investing activities of EUR 0.9 million was higher than in the previous year (2012: EUR 0.3 million). This figure arises mainly from the repurchase of the shares of a special purpose company and from the final costs of acquiring a photovoltaic power plants held in noncurrent assets. Both investment projects were assigned to the Power Plants segment and have been completed. As of 31 December 2013, there were no investment obligations.

7.2.5 CASHFLOW FROM FINANCING ACTIVITIES

The cash flow from financing activities resulted in a cash outflow of EUR 0.3 million in 2013 in a year-on-year comparison (2012: cash inflow EUR 12.0 million). The figure comprises cash outflow of around EUR - 1.2 million (2012: EUR 3.0 million) for covenants under the syndicated loan agreement and from borrowing in an amount of EUR 0.8 million which was significantly less compared with the previous year owing to the lower level of losses (2012: EUR 14.8 million). This figure includes interest income of EUR 0.2 million in an amount similar to the previous year.

7.2.6 DEVELOPMENT OF CASH AND CASH EQUIVALENTS

The Phoenix Solar Group's cash and cash equivalents climbed overall by EUR 1.1 million to EUR 10.0 million in the financial year 2013 (31 December 2012: EUR 8.9 million). No liquidity shortfalls occurred in the financial year 2013. The development of liquidity in 2013 and liquid assets as of 31 December 2013 give rise to expectations that the Group will remain in a position to fulfil all its payment obligations. Furthermore, the existing Group financing fully secures the payments provided for in the currently valid planning. Provided that business develops in line with expectations in 2014, no liquidity shortfalls are foreseeable.

7.3 NET ASSETS

The total assets of the Phoenix Solar Group stood at EUR 67.8 million on 31 December 2013 (31 December 2012: EUR 92.7 million), corresponding to a decrease of 26.9 percent as against year-end 2012.

On the assets side, this decrease – also caused by strategic realignment – resulted mainly from the reduction of inventories to EUR 3.1 million, down EUR 8.5 million, as well as the reduction of receivables (receivables under long-term construction contracts and trade payables) which declined by EUR 8.1 million to EUR 18.8 million (31 December 2012: EUR 26.9 million). In addition, other financial assets fell by EUR 2.0 million to EUR 8.8 million (2012: EUR 10.8 million), and non-financial liabilities decreased by EUR 4.2 million to EUR 7.4 million (31 December 2012: EUR 11.6 million). Information on the development of noncurrent assets is presented in Section D of the notes to the consolidated financial statements and in the Consolidated Statement of Changes in Noncurrent Assets contained therein (Note 15).

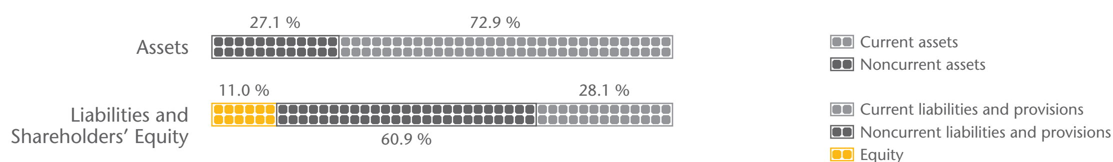
All figures in € m	31/12/2013	31/12/2012
Assets	**67.8**	**92.7**
Noncurrent assets	18.4	20.5
of which deferred tax assets	1.0	2.1
Current assets	49.4	72.2
of which inventories	3.1	11.6
of which receivables under long-term construction contracts	5.4	0.7
of which trade receivables	13.4	26.2
of which cash and cash equivalents	10.0	8.9
Equity and liabilities	**67.8**	**92.7**
Equity	7.5	17.3
Noncurrent liabilities and provisions	41.3[1)]	1.7
of which deferred tax liabilities	0.0	0.0
Current liabilities and provisions	19.0	73.6
of which trade payables	4.8	17.8
of which current financial liabilities	0.0[1)]	39.5

[1)] Change mainly attributable to the reclassification of syndicated financing owing to maturity as per 31 March 2015

As a result of the consolidated net loss, the Group's equity fell by EUR 9.8 million to EUR 7.5 million (31 December 2012: EUR 17.3 million). Accordingly, the equity ratio posted 11.0 percent as of 31 December 2013 (31 December 2012: 18.7 percent).

Borrowed capital stood at EUR 60.3 million, down EUR 15.0 million (31 December 2012: EUR 75.3 million) which was largely attributable to a decrease in trade payables of EUR 13.0 million to EUR 4.8 million (31 December 2012: EUR 17.8 million) and in financial liabilities which fell by EUR 1.1 million to EUR 2.6 million (31 December 2012: EUR 3.7 million). Similarly, other non-financial liabilities dropped by EUR 1.0 million to EUR 4.6 million (2012: EUR 5.6 million) whereas current provisions declined by EUR 0.9 million to EUR 3.9 million (31 December 2012: EUR 4.8 million). Net indebtedness posted EUR 32.9 million as of 31 December 2013 (31 December 2012: EUR 34.4 million).

Balance structure 31/12/2013



8 GUIDANCE, OPPORTUNITY AND RISK REPORT

Photovoltaic technology as a means of generating energy holds great potential, both today and in the future. In the medium and long term, the goals of climate protection and the transformation of Germany's energy system can only be achieved with a high proportion of solar energy. This conviction still represents the core of our business activities, and it will prove to be an important force driving the development of markets in the future. The business strategy of Phoenix Solar AG is aimed at developing and successfully implementing viable business models for these markets under profoundly changing conditions which we have described in Section 4.

In the target markets which we address, we anticipate a significant double-digit growth in newly installed photovoltaic capacity in 2014. According to estimates by the sector, installed Photovoltaic capacity is likely to be as follows: 5.2 GWp in the USA, 3.7 GWp in our Asian target markets (Southeast Asia and the Middle East) and 4.3 GWp overall in our European markets (Germany, France, Greece, Italy and Spain).

8.1 STRATEGY

In order to achieve the objectives we have set ourselves in 2014 we will be relying exclusively on organic growth, specifically by placing the highest priority on the target markets where we have already established a very promising foothold. We will continue to rigorously implement our strategy of increased internationalisation in attractive international markets. In 2014, we will be focusing mainly on growth markets in the United States and the region of Southeast Asia. As part of our endeavours to expand our business significantly in Europe and in the Middle East as well, we appointed another member to the Executive Board at the start of the year 2014. His responsibilities include the new business models based on own consumption currently being tested in Germany. These business models play a strategic role in as much as, having started on a successful note, we believe they harbour considerable revenue and growth potential. Moreover, if successful, we could most certainly apply them to other European countries.

We will also begin investing in additional personnel in tandem with the pace of growth anticipated. Our initial priority will be given to reinforcing the sales teams in the growth regions.

8.2 GUIDANCE IN THE BASELINE SCENARIO

Based on the company's current structure and positioning, and given the process of implementing strategic approaches in the coming years, the Executive Board and management assumes that it will be possible to return to achieving rising revenues again in the financial year 2014.

Similar to the year now ended, the share of the Components & Systems segment in growth and volume will continue to decline in 2014 as well. We anticipate that this segment will make up less than one third of total revenues. As before, the Components & Systems segment comprises essentially revenues from Asia and France. In addition, the portion of revenue from own-consumption models for private households in Germany is allocated to this segment.

In the Power Plants segment, we assume an increase in revenues of around 30 percent compared with 2013. We expect the strongest growth rates in the USA where we intend to roughly double our sales of newly installed MWp. We are also planning to expand in the growth regions in Asia.

Underlying this guidance is the assumption of market growth initially anticipated in the two most important markets of the USA and Southeast Asia. As explained in Section 4, our subsidiaries in these countries are staffed by expert teams with powerful networks respectively, a proven track record, good testimonials and a sound reputation. This qualifies them to take part in tendering processes or other opportunities to acquire smaller and larger projects and translate them into business. We therefore anticipate that these units are well positioned to expand with the market and even achieve above-average growth. In terms of the new business models currently being tested, we are working towards launching a successful market entry phase in 2014, thereby generating considerable growth from a very low starting point. In the Middle East, we anticipate a marginal increase in revenues. By contrast, we assume that the European subsidiaries will see revenues stagnate or even decline in this baseline scenario.

If these underlying assumptions for our segments and target markets materialise as expected, revenue growth of around ten percent should be realisable for the Group in the financial year 2014. This would correspond to a corridor of between EUR 150 million and EUR 160 million (2013: EUR 141.2 million) based on sales anticipated in a range of 130 MWp to 140 MWp (2013: 126 MWp).

On the cost front, we will be able to somewhat improve on the level in the reporting year, especially as we do not expect any extraordinary burdens at present compared with 2013 when costs of around EUR 2 million were incurred. Against this backdrop, we anticipate earnings before interest and taxes of between EUR 2 and 5 million (2013: EUR - 1.4 million).

The financing agreement first concluded in 2012, modified in February 2013 and extended until 31 March 2015, covers the company’s financing needs in full, based on the business plans. Provided that the company’s business performance allows it to comply with the customary loan covenants and no other events trigger the termination of the credit agreements, the Group’s financing is ensured through 31 March 2015.

As, given the stable financing through to 2015 and free credit lines averaging approximately 30 percent planned in 2014, we can generally anticipate a repeat of the financial result, the operating result will not yet be sufficient to return the company to profitability.

Consequently, the amount of consolidated equity and the Group’s equity ratio is initially set to decline marginally. As from 2015, however, equity is likely to stabilise at a level of between EUR 8 and 15 million if we – as currently planned – write black figures again in terms of unappropriated retained earnings as well.

Guidance for the financial year 2014

All figures in € m	**Actual 2013**	**2014**
Revenues	141.2	150-160
EBIT	– 1.4	2-5
Equity	7.5	In marginal decline
Credit line utilisation	83 %	70 %
Order intake	87.0	160-170

Opportunities and risks

Our plans may, however, be hampered or, conversely, favoured by various external and internal factors. The risks and opportunities arising for the Group are monitored by the Executive Board on an ongoing basis, particularly by way of the opportunity and risk management system established for this purpose. The opportunities and risks are not differentiated by segment in this system.

8.3 RISK POLICY

As a company with international operations, the Phoenix Solar Group is exposed to a wide variety of risks. Our risk policy is therefore geared to ensuring the continued operation of Phoenix Solar as a going concern and to sustainably increasing the company's value. In line with these principles, all business decisions are only taken after in-depth risk analysis and evaluation. As achieving success in business inevitably entails opportunities and risks, our risk strategy incorporates both components. In the areas of our core competences, we therefore assume manageable, assessable risks if the income which could 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 which would endanger the company as a going concern.

8.4 OPPORTUNITY AND RISK MANAGEMENT SYSTEM

The Group's risk and opportunity management system is designed to identify individual risks, to presenting them in a transparent manner and to determining ways of managing them appropriately. Aside from risks that would endanger the company's survival as a going concern, we also monitor the 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. The risk management system was continuously adjusted to changes in the company's structure over the course of the financial year 2013. Other, significant amendments were not carried out.

A group of risk officers appointed to 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 individual risk is classified according to the criteria of probability of occurrence and potential loss amount. In addition, the risk officers devise countermeasures to influence the aforementioned parameters in a positive way. The risk manager analyses, assesses and documents all such risks at regular intervals (generally on a monthly basis) and keeps the risk officers informed in the regular meetings of a Risk Committee. The role of the risk officer has currently been assumed by Phoenix Solar AG's Chief Financial Officer. In these meetings, the risk officers review the risk assessments and adopt appropriate counter-measures. If the expected potential loss from aggregated risk reaches a certain critical threshold in relation to Group equity, the risk officers also separately inform the Supervisory Board of the Group's current risk position.

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 continually reviewed.

8.5 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS

Our internal control and risk management system with regard to the (consolidated) financial reporting process is designed to ensure that our accounting system is uniform and compliant with applicable laws and regulations, generally accepted accounting principles in Germany and the International Financial Reporting Standards (IFRS). The purpose of the internal control system is to provide reasonable assurance that the consolidated financial statements are prepared correctly particularly by way of plausibility checks and the application of the dual control principle.

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 deputisation arrangements are reviewed 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 IFRS accounting standards, 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 workflows involved in their accounting-related processes and systems. Corporate Accounting supports the Group companies throughout the entire accounting process.

8.6 SUMMARY OF THE RISK POSITION

In the estimation of the Executive Board and to the best of our current knowledge, the risks to which we are exposed are manageable. There was no risk to the Phoenix Solar Group as a going concern at the time of this Annual Report. This assessment applies to both the individual companies and the Group. In the context of our risk management system, only one specific risk is currently classified as “significant”, specifically the risk of corporate financing. Further consideration of this risk has resulted in it being classified as moderate.

Overview and assessment of the individual risks

Risk category	Classification	Impact on occurrence	Probability of occurrence	Potential loss amount	Monitored by way of
8.7.1. Group financing	significant	high	low	moderate	Risk management system
8.7.2. Liquidity	low	high	low	low	Daily Monitoring
8.7.3. International sales and project business	significant	moderate	moderate	moderate	Management reviews
8.7.4. Political and regulatory factors of influence	moderate	low	moderate	low	Management reviews
8.7.5. Market, competition and external factors of influence	low	low	low	low	Risk management system
8.7.6. Procurement and inventories	low	low	low	low	Risk management system
8.7.7. Currency risks	low	low	low	low	Risk management system
8.7.8. Other risks	low	low	moderate	low	Risk management system

8.7 SPECIFIC RISKS

8.7.1 GROUP FINANCING

A new syndicated loan was signed on 11 May 2012. In early February, the term of this agreement, which was originally until 31 March 2014, was extended to 31 March 2015, with a slightly lower financing volume. In conjunction with other bilateral financing arrangements, this financing package provides the financing necessary for implementing the new strategy, based on the business plans drawn up for this purpose. Among other clauses, it contains the customary covenants. If these covenants are not complied with, the syndicate would be entitled to cancel the credit facilities, which would endanger the company as a going concern. This situation would also arise if the syndicated loan is not extended beyond 31 March 2015.

At the present time, however, the company's management believes that the company's solvency is secured for the term of the syndicated loan, particularly in view of the conservative assumptions made for cash inflows and outflows in the underlying business plan. The Executive Board expects that the syndicate banks will renew financing beyond 31 March 2015.

8.7.2 LIQUIDITY

The availability of credit to finance photovoltaic power plants is affected by the increasingly restrictive lending practices of banks also in an international context. Phoenix Solar seeks to counter this trend initially by means of focusing almost entirely on the EPC business. This business is typically financed through bridging loans for construction, which reduces the need for liquidity. The current business plan, which has been coordinated with the lenders, provides for adequate guarantee lines for this purpose. In the course of further developments, however, particularly with respect to major projects and possible overlaps between them, it may transpire that the available guarantee lines are not enough to cover the needs of the Group. In that case, exploiting revenue and earnings potential may also be impossible. We seek to lower this risk through close coordination with the subsidiaries and rigorous guarantee management.

8.7.3 INTERNATIONAL SALES AND PROJECT BUSINESS

The Phoenix Solar Group has an international presence through its subsidiaries on three continents. Owing to its strategic realignment, the Group will be highly dependent on these markets and on the profit contribution generated by the local subsidiaries in the coming years. This applies particularly to the USA and Asia and the individual major projects planned in these countries. If projects in the multimegawatt range fall below sales planning, extrapolated for the year as a whole, this could result in a considerable shortfall against consolidated revenues planning, and lead to the corresponding loss of earnings. We counteract this risk through close coordination with the subsidiaries by way of a standardised reporting line with monthly management reviews and other regular monitoring measures geared to the sales situation of the companies. Nonetheless, the timely acquisition of projects and sales contributions in these regions which form an essential part of planning remains a significant risk for Phoenix Solar Group.

The primary focus on countries outside the European Union poses a heightened risk, due to the Group's involvement in different legal, political and currency systems. Misjudgements of legal and economic conditions leading to unforeseen cost burdens are fundamentally possible. We deal with this risk through a defined approvals process for projects exceeding a certain dimension. The execution of the construction of photovoltaic power plants in foreign countries is subject to partly greater risks than in Germany. In order to identify and counter these risks at an early stage, especially in the case of major projects, standardised risk reports are prepared in the context of monthly reporting. Nonetheless, delays and higher costs compared with original planning which would potentially result in lower gross margins cannot be excluded.

8.7.4 POLITICAL AND REGULATORY FACTORS OF INFLUENCE

The development of the various national photovoltaic markets will continue to present a disparate picture in 2014 in terms of the extent to which they are promoted or braked by legislation. Long-term legislative degression models, as well as unannounced, on occasion radical changes in the legislative framework and interventions that damage confidence and fail to protect installed capacity reduce the achievable returns of new photovoltaic systems. The resulting uncertainty of investors and operators may cause markets to stagnate or even contract.

The new business models based on own consumption which we began testing at the end of 2013 in the environs of Munich are currently largely exposed to this risk. The plans of the German government known to date provide for levies on power plants generating solar electricity for use by private households as from a certain size. This may possibly result the advantage of households producing electricity themselves as opposed to buying it from a power utility being lost. Depending on the form this legislation ultimately takes, we may have to scale back or even fully discontinue this business in Germany over the course of the year. This being the case, consolidated revenues may be lower than forecast in the baseline scenario.

Risks may, however, also arise from the political and regulatory environment in our core international markets.

In the markets of Asia, we are confronted with a wide variety of subsidy systems and framework conditions. Moreover, in some target countries there is reason to doubt whether their governments will retain the resolved subsidy programmes.

In the United States as well, there are important differences between the individual states concerning the significance attached to renewable energy sources and the regulatory treatment of such energy sources. To counter the risk of misallocating resources, our US subsidiary relies on a network of cooperation partners to identify suitable target markets.

Both subsidiaries are, however, sufficiently diversified specifically on account of the extremely different rules and regulations prevailing in the individual states in these regions. We therefore assume that there is no cause to fear a downturn in sales for the Group owing to local political and regulatory risks.

8.7.5 MARKET, COMPETITION AND EXTERNAL FACTORS OF INFLUENCE

Competitive and margin-related pressure grows commensurately with the extent to which photovoltaic is attractive as a business to new market entrants in these still growing markets. On the one hand, the big, notoriously unprofitable manufacturers are attempting to expand their business into the segment of power plant construction; on the other hand, the overall number of suppliers has increased further, despite the difficult market environment. We seek to counter these trends by focusing on developing our offering policy and range of products and services through developing new business models designed for shrinking markets and for markets that are not dependent on state subsidy programmes.

If, pressured by growing competition, we achieve lower gross margins than planned, the Group's earnings situation would be likely to deteriorate accordingly. In view of the lean structures of the company in the wake of last year's restructuring endeavours, a decline of this sort, if we are unsuccessful in passing on pressure from the market to our suppliers, is likely only to be partly compensated by savings.

8.7.6 PROCUREMENT AND INVENTORIES

The risk of greater impairment having to be carried out owing to a swift decline in module prices has declined significantly owing to the liquidation of our inventories in Germany and the decentralisation and flexibilisation of procurement and can meanwhile be viewed as minimal. The close monitoring of all subsidiaries, accompanied by stringent inventory management standards, are measures that will considerably lower the risk of inventory devaluations.

8.7.7 CURRENCY RISKS

Our key financials are partly influenced by exchange rate fluctuations from our global business activities. Our focus on international markets heightens this risk. We limit transaction-related currency risks by optimising operational cash inflows and outflows. Further currency risks are hedged by means of hedging instruments such as foreign exchange futures and options.

8.7.8 OTHER RISKS

Given the current status, none of the other risks subject to constant monitoring through our risk management system (default risk, for instance, as well as physical and legal risks) is such that its occurrence would be significantly detrimental to the Group's revenues and result.

8.8 OPPORTUNITIES

Although there are material risks to the company's performance in 2014, there are also additional opportunities here.

There are special opportunities inherent in our US business from flagship projects which have meanwhile been realised and the high level of expertise of our employees as regards technology and planning as well as in structured financing and in handling approval procedures. By the end of the financial year 2013, we had already raised the number of sales staff in this country which facilitated an even stronger positioning. This should, in turn, significantly boost the expansion of business relationships with additional investors and project developers, thereby ultimately raising the number of offers and volume of business concluded.

In Asia, we will rise to the challenge posed by the large number of different individual markets with a dynamic, international team whose members have good contacts with regional and local industries. Also in Asia, the reference projects which have already been completed and the expertise of our employees will generate opportunities for raising our company's profile and expanding our sales activities.

In Germany, Phoenix Solar AG is focusing fully on the new business models which highlight the benefits of photovoltaic independent of government subsidies. If we are successful in placing own consumption solutions in the test region, there may be an opportunity of the sales territory being expanded more swiftly than originally envisaged in our planning.

In addition, we have focused our sights on the Gulf region where we have already established our presence through flagship projects in Saudi Arabia and Jordan. We are investigating the possibility of rapidly reinforcing our market presence and market penetration in these countries.

If we are successful in seizing the opportunities that arise and translating them into business success before the end of 2014, the sales growth could be raised by up to ten percentage points more.

8.9 FUTURE DIVIDEND POLICY

Generally speaking, the goal of Phoenix Solar AG's dividend policy is to maintain the investment value of the company's share, while also being able to finance the company's future growth and meet the needs of the current business situation. The company has achieved this goal in the past. However, in view of the fact that the company wrote considerable losses in the years from 2011 to 2013, no dividend distribution has been planned for the foreseeable future.

9 GENERAL ASSESSMENT OF THE SITUATION AND OUTLOOK OF THE GROUP

With the disposal of business which had been making a decidedly negative contribution to the result right up until 2012, a group structure has emerged which was already showing signs in 2013 of significant revenue and earnings potential. This has already taken the company a huge step forward towards achieving profitable growth again. All restructuring plans and measures were discussed with the financing banks which, upon modification and renewal of the existing financing through to March 2015, have provided a sound foundation for the company's future development.

The success of the Phoenix Solar Group currently depends to a great extent on the subsidiaries in the USA and in Southeast Asia. We are well positioned in both core markets, have a good track record of testimonials and flagship projects, staff who are well qualified and motivated, as well as good connections in the sales markets. On the other hand, therefore, the sales success of these companies will influence the Group as a whole. We are aware that there is a certain volatility inherent in the development of business generated from sale of photovoltaic projects which does not necessarily allow for the anticipation of steady growth in revenues and the result from one quarter to the next. With this in mind, we have developed and implemented instruments which we use to record and control sales activities and successes across the Group in a timely fashion. The Executive Board anticipates and works with all managers towards ensuring that the business contacts initiated provide scope which is at minimum sufficient for achieving the objectives through generating actual contracts. Nonetheless, it is precisely this generating of orders – or rather not generating them – which harbours a considerable risk for the Phoenix Solar Group. Alongside the core markets of the USA and Southeast Asia, we aim to reinforce our presence in the Middle East where we can also present prestigious testimonials and draw on a good network of contacts.

By comparison, the situation of our European subsidiaries depends to a much greater extent on political framework conditions within the European Union and in the individual countries. We currently observe that our politicians are seeking for options which allow the expansion of renewal energy to be efficiently integrated into the electricity market structures. This search, however, has given rise to a great deal of uncertainty in the markets and for customers which could have a negative impact on the development of our business. Against this backdrop, we have taken precautions with the aim of preserving a presence in these markets as long as possible without incurring notable risks for the Group's success. Indeed, we currently believe that the demand for photovoltaic in these countries will also pick up strong momentum in due course. However, we are prepared to wind down specific companies as we are now doing in Italy if this is necessary for the stability of the entire company.

We also consider there to be good future opportunities and growth potential in certain market segments in Germany, particularly for small photovoltaic systems optimised to suit private domestic consumption. We intend to tap this potential with our innovative offering, thereby gaining a fresh foothold. Our aspiration is to build up a new position in our home market through offering products geared to domestic consumption rather than towards feed-in remuneration. Nonetheless we will also monitor the potential risks here and keep them to a minimum.

We are convinced that photovoltaic can hold its own in the competitive arena and remain a future-oriented technology. Its market penetration stands, however, on the threshold of a new phase when conditions and opportunities are set to change swiftly while requiring a new mindset from providers, politicians, investors and customers. In this situation of radical change, we are positioning Phoenix Solar AG as a company which can rise to meet these challenges with its range of products and services. Returning to sales and earnings growth will depend on how swiftly we can achieve this positioning and turn our good foothold in our core markets into business.

10 SUSTAINABILITY

Generating electricity from sunlight is itself an act of active environmental protection and an important contribution to ensuring a sustainable supply of energy. 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. Our slogan “Phoenix Solar – Making Energy Together” is the main guiding principle of our corporate philosophy. The principal pillars of our sustainability strategy are environmental protection, our employees and a commitment to social responsibility.

In the following, we describe various measures that have been introduced and implemented at the German locations in past years and also in the financial year 2013.

10.1 ENVIRONMENTAL PROTECTION

10.1.1 PRODUCTS, SERVICES AND SUPPLIER RELATIONSHIPS

Phoenix Solar Group only distributes products throughout the world that contribute to climate protection and environmental protection. Photovoltaic systems generate electrical energy from sunlight. They are virtually silent and do not emit pollutants. Photovoltaic systems are therefore an important element of an energy mix that is geared towards mitigating the carbon footprint. Depending on the module technology, solar power plants generate the equivalent of the energy used to build them within around three years. Thereafter they produce a positive energy footprint. Based on current standards, 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 protection and environmental protection requirements stipulated in the land-use plans. This also applies to carrying out regular operation and maintenance work which partly include the drawing up and implementation of environmental concepts for the individual photovoltaic power plants.

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 programmes for photovoltaic modules (photovoltaic cycle) or have instituted their own take-back programmes. These programmes guarantee the acceptance of used products even if the manufacturer would no longer be in business.

10.1.2 CERTIFIED PROCESSES

Back in 2009 the Power Plants segment of Phoenix Solar AG had already introduced a quality assurance and environmental management system which was certified under the international standards DIN EN ISO 9001:2008 and DIN EN ISO 14001:2004. The integrated management system was supplemented by the introduction of an energy management system certified under DIN EN ISO 50001:2011. The annual follow-up audits were conducted both by an internal and an external auditor. The most recent audit and renewal of the certification for the operation and maintenance business remaining after the strategic realignment took place in November 2013.

10.1.3 ENVIRONMENTAL MANAGEMENT SYSTEM

Phoenix Solar AG has introduced an environmental management system that is based on the applicable standards for quality assurance (DIN EN ISO 9000 et seq.) and the international standard for environmental management (DIN EN ISO 14000 et seq.). 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.

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 all regulatory requirements. Compliance with the company's environmental policy is verified through internal audits at least once a year.

10.1.5 ENERGY MANAGEMENT SYSTEM

We have defined our energy policy as follows: "We at Phoenix Solar AG herewith commit to reducing our energy consumption on a long-term basis and to raising our energy efficiency in an ongoing process of improvement." To this end, we operate an energy management system established in accordance with DIN EN 50001:2011 standards and ensure that all requirements under this standard are correctly implemented and that the processes forming part of this energy management system are continuously improved.

10.1.6 MOTOR VEHICLE FLEET

The group-wide motor vehicle fleet was subject to guidelines relative to cylinder capacity, fuel consumption and CO_2 emissions in the financial year 2013. Also in 2013, the environmental protection association Deutsche Umwelthilfe honoured Phoenix Solar with the "Green Card for Credible Climate Awareness" in recognition of its low carbon footprint.

10.1.7 OTHER PROGRAMS

We still purchase electricity from a certified eco-power vendor for our German locations in Sulzemoos and Ulm. The buildings in Sulzemoos are heated by a wood chip-fuelled thermal power plant. We also take great pains to minimise our paper consumption, and we are careful to purchase the paper we use for our print products only from paper manufacturers that carry the seal of the Forest Stewardship Council (FSC).

10.2 COMMITMENT TO SOCIAL RESPONSIBILITY

As members of our community and society, we assume responsibility for everyone connected with our company. We are convinced that a large part of our success in business hinges on responsible actions and exercising social responsibility. Our activities comprise participation in a wide variety of projects in the area of society, education, culture and the environment even if these activities had to be significantly scaled back as part of the restructuring process.

11 REPORT PURSUANT TO SECTION 315 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB)

As of 31 December 2013, the share capital of Phoenix Solar AG amounted to EUR 7,372,700.00, unchanged from the prior year. It is divided into 7,372,700 no-par bearer shares. All shares are issued and fully paid-up. Pursuant to Article 5 para. 5 of the Articles of Association, shareholders are not entitled to individual physical certificates. All shares are ordinary shares. Each share grants the same co-administration and asset rights and confers one vote per share in the Annual General Meeting. Further rights and obligations of the shareholders have been laid down in the German Stock Corporation Act (AktG), particularly under Sections 53a et. seq. and 118 et. seq.

There are no restrictions on voting rights or 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 ten 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 powers of control have been issued.

Amendments to the Articles of Association are fundamentally subject to the legal provisions under Sections 133, 179 of the German Stock Corporation Act. If not regulated otherwise in the individual case by the Articles of Association, and provided they do not stand in contradiction to mandatory legal requirements, resolutions of the Annual General Meeting are passed by way of a simple majority of the equity capital represented at the time of the resolution in accordance with Article 14 para. 5 sentence 2 of the Articles of Association. Article 12 para. 3 of the Articles of Association stipulates that the Supervisory Board is authorised to decide amendments that only affect the wording. Moreover, 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 the expiration of the respective authorization periods, and, in the event that the Conditional Capital 2010 is not utilised, after expiration of all conversion and/or warrant periods.

The Supervisory Board appoints and revokes the appointment of Executive Board members in accordance with the statutory provisions of Sections 84 et. seq. of the German Stock Corporation Act. The number of Executive Board members and any deputising Executive Board members is determined by the Supervisory Board in accordance with Article 6 para. 1 of the Articles of Association.

By way of resolution by the Annual General Meeting of 16 June 2010, the Executive Board was authorised, with the consent of the Supervisory Board, to purchase treasury shares representing no more than ten percent of the company's share capital, either in the stock market or by means of a public purchase offer to all shareholders, and to resell them on or before 15 June 2015. Further details are set down in proposed resolution published in the electronic Federal Gazette dated 7 May 2010 and passed in this form.

By way of resolution by the Annual General Meeting of 14 July 2011, 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 3,686,350.00 new bearer shares in exchange for cash and/or in-kind capital contributions on one or more occasions on or before 13 July 2016 (Authorised Capital 2011). Subscription rights must be granted to the shareholders as a general rule. The Executive Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights specifically in the following cases:

a) when issuing new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock market price of the company's shares endowed with the same rights. However, this authorization is subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorization under exclusion of the subscription right pursuant to Sections 203 para. 1, and 186 para. 3 sentence 4 of the German Stock Corporation Act does not exceed ten percent of the company's share capital at the time when the present authorization takes effect or when it is exercised, whichever is lower; and

b) when issuing new shares in exchange for in-kind capital contributions, particularly for the purpose of acquiring companies, parts of companies and/or investments in companies. However, this authorization is limited to the extent that the number of shares issued under exclusion of subscription rights after the exercise of this authorization or another authorization granted by the Annual General Meeting (including the authorizations defined in Sections a and c of the present resolution) does not exceed 20 percent of the share capital at the time when this authorization takes effect or when it is exercised, whichever is lower.

More detailed provisions are set forth in the company's Articles of Association which are available on Phoenix Solar's website.

No further stock options may be issued under the authorization resolved by the Annual General Meeting of 7 July 2006, which was in effect until 1 July 2011, to establish a Stock Option Plan 2006, which entailed the issuance of stock options granting subscription rights to shares of the company to members of the Executive Board, members of the senior management of Group companies and other selected executives and key employees, under the exclusion of the shareholders' subscription rights. No stock options were exercised in financial year 2013. As of 31 December 2013, there were still 58,000 options outstanding. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company has not been terminated by either party at the time when the stock options are exercised. The strike price is no less than EUR 20.00 for any of the tranches. Further details on the Stock Option Plan are provided in the notes to the consolidated financial statements (Section F, Note (40)).

The Annual General Meeting of 16 June 2010 authorised the Executive Board to issue, with the consent of the Supervisory Board, bearer convertible bonds and/or bearer warrant bonds, or a combination of these instruments, in a total nominal amount of up to EUR 200,000,000.00, with a term of no longer than five years, granting subscription rights to a total of up to 2,814,000 bearer shares of Phoenix Solar AG, and to exclude the subscription rights of shareholders, with the consent of the Supervisory Board, on or before 15 June 2015. At the same Annual General Meeting, the shareholders resolved to establish Conditional Capital 2010 to service the corresponding rights. The terms and conditions of the convertible bonds and/or warrant bonds will be established separately, with the consent of the Supervisory Board.

The syndicated loan agreement concluded on 11 May 2012 and subsequently amended and reformulated by agreement of 8 February 2013 contains change-of-control clauses. Under this agreement, all drawdowns under the credit facility will be due and payable within fourteen days if one person or several persons "acting in concert" gain control over the company ("change of control"). For this purpose, control is defined as the holding (either directly or indirectly) of a qualified minority stake (more than 30 percent) of the shares or voting rights in the company, or the right to appoint or revoke the appointments of Executive Board members, or to appoint the management and/or the Supervisory Board of the company.

At the present time, no commitments have been made to any Executive Board member in the event of termination of his employment by reason of a change of control ("change-of-control clause").

12 COMPENSATION REPORT

12.1 BASIC PRINCIPLES OF THE COMPENSATION SYSTEM FOR THE EXECUTIVE BOARD AND SUPERVISORY BOARD

In accordance with Section 315 para. 2 item 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 para. 1 item 6 of the German Commercial Code, are presented in the following compensation report. The compensation report adheres to the provisions of the Executive Board Compensation Disclosure Act (VorstOG) and the recommendations of the German Corporate Governance Code, and itemises the compensation granted to individual members of the Executive Board and Supervisory Board.

12.2 EXECUTIVE BOARD

The compensation of Executive Board members is composed of a fixed, non-performance-based component and a variable, performance-based component. This ensures that the individual Executive Board members are rewarded for their performance and level of responsibility, depending on the company's economic situation and success.

In the financial year 2013, the total compensation of Executive Board members was composed of the non-performance related components and performance-related components described in the following:

Compensation components that are not dependent on performance include a basic monthly salary, the provision of a company car which can also be used for private purposes, and the assumption of a premium for an accident insurance policy which primarily covers accidents on the job, but also covers liability in the private sphere. Furthermore, social security contributions as prescribed by the law, minimum or fixed bonuses, additional board and lodging costs and severance payments also form part of non-performance based compensation.

As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals has been used to date as the basis for performance-based compensation. 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. Against the backdrop of far-reaching changes in the entire solar industry, peer group insolvencies, the comprehensive restructuring and re-alignment of Phoenix Solar and the administrative costs, this system is, however, no longer adequate. The performance-based remuneration was therefore switched to a flexible form with a system of agreeing goals which allows the Supervisory Board to agree and set goals specially aligned to the company's respective situation and the scope of responsibility assigned to the individual Executive Board member, and to define variable compensation depending on the degree to which goals are achieved. Performance is generally assessed over a horizon of several years in order to factor in the company's sustainable development. The Supervisory Board can, however, diverge from this principle depending on the company's situation and opt for a single year basis, for instance. Owing to the special restructuring situation with the comprehensive realigning of the company in 2013, this option was selected. In the financial year elapsed, the performance of the two regions of Asia and USA for which Dr. Murray Cameron bears responsibility at Executive Board level was of great significance for the Group's success, alongside the consistent and successful implementation of restructuring. Based on the new regulations governing performance-based compensation, goals which take account of this importance were agreed with Dr. Cameron. The parameters applied consisted of EBIT along with the order books and pipelines of the two regions covered by the two local subsidiaries.

In the context of Dr. Andreas Hänel leaving company, the activities of Dr. Bernd Köhler as an Executive Board member and his assumption of the role of Chief Executive Officer on 1 March 2013 were redefined on the new contractual basis of a management service agreement. This agreement no longer provides for additional benefits such as a company car, accident insurance, continued payment of benefits in the event of death, contributions to a company pension or regulations governing severance payment, and defines a relatively strong performance incentive through the company's option to terminate the contract at relatively short notice. Compensation is based on a fixed and a fundamentally variable daily rate. The latter component was, however, also fixed during the financial year 2013.

The performance-based compensation components are capped.

The total compensation paid to the Executive Board amounted to kEUR 1,187 (2012: kEUR 872). Compensation is itemised as follows:

k€	Non-success-dependent components		Success-dependent components		Components with a longterm incentive effect		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Dr. Andreas Hänel*	343	218	0	36	0	0	343	254
Dr. Bernd Köhler	527	191	0	153	0	65	527	409
Dr. Murray Cameron	177	139	140	39	0	0	317	178
Executive Board total**	**1,047**	**573**	**140**	**234**	**0**	**65**	**1,187**	**872**

* Dr. Andreas Hänel withdrew from the Executive Board of Phoenix Solar AG on 28 February 2013 and left the company on 31 May 2013. In the context of cancelling his contractual relationship, a severance payment of kEUR 235 was paid.

** The figures on the overall amounts also comprise payments to board members in the year 2012 who no longer acted in this capacity for the company in 2013 and are therefore no longer listed in the overview of above.

Aside from the company pension plan, no further pension commitments have been made to members of the Executive Board. In the case of death, remuneration will be paid to the surviving dependants for a period of six months.

No loans were extended to members of the Executive Board.

12.3 SUPERVISORY BOARD

The compensation of the Supervisory Board is authorised and determined by the Annual General Meeting in accordance with Article 11 of the company's Articles of Association. The regular Annual General Meeting in 2012 revised the compensation paid to Supervisory Board members. Under the new system, members of the Supervisory Board receive compensation of EUR 15,000 each for the respective financial year. The Chairman is paid two and a half times this compensation, which amounts to EUR 37,500. The Vice Chairman receives one and a half times this amount, i.e. EUR 22,500. Supervisory Board members belonging to the Supervisory Board for only part of the financial year receive one twelfth of the aforementioned compensation for each new month of their activity. In addition, each member of the Supervisory Board received an attendance fee of EUR 1,000 for each meeting of the Supervisory Board in which the respective member participated. In respect of attendance fees, two telephone conferences held by the Supervisory Board were treated as Supervisory Board meetings. Attendance fees are disbursed after each meeting or each telephone conference. The Company reimburses members of the Supervisory Board for their expenses and for value added tax incurred by their Supervisory Board activities. As a further benefit, the company provides insurance cover for the members of the Supervisory Board and technical support to the Chairman of the Supervisory Board within a scope appropriate for the exercising of his tasks as Chairman of the Supervisory Board.

There were no consultancy contracts between the company and members of the Supervisory Board. Similarly, no Supervisory Board member was granted loans by the company.

The compensation of the Supervisory Board contained neither in the financial year 2013 nor in the financial year 2012 any success-dependent components or components with a longterm incentive effect.

The sum total of remuneration paid to the Supervisory Board in 2013 amounted to kEUR 124 (2012: kEUR 196) and is itemised in the table below (net figures excluding VAT).

k€	Non-success-dependent components (incl. ancillary benefits)		Total	
	2013	2012	2013	2012
J. Michael Fischl	52	63	52	63
Prof. Dr. Thomas Zinser	38	45	38	45
Oliver Gosemann	34	30	34	30
Total*	**124**	**196**	**124**	**196**

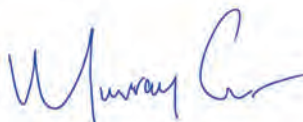
* The figures on the total amounts include payments disbursed in 2012 to Board members who were no longer active in this capacity for the company in 2013 and were therefore no longer listed in the table above.

13 AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

“To the best of our knowledge, we hereby affirm that the Group financial statements give a true and fair reflection of the results of operations, financial position and net assets of the Group in accordance with the applicable generally accepted accounting principles.”

Sulzemoos, den 26 March 2014
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Bernd Köhler
(Chief Executive Officer)



Dr. Murray Cameron
(Chief Operating Officer)

Olaf Laber
(Member of the Executive Board)

CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM 1 JANUARY UNTIL 31 DECEMBER 2013 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

Consolidated income statement 071
Consolidated statement of comprehensive income 071
Consolidated balance sheet 072
Consolidated statement of changes in equity 074
Consolidated cash flow statement 075

CONSOLIDATED INCOME STATEMENT

Persuant to IFRS for the period from 1 January 2013 until 31 December 2013 k€	Notes C.	01/01/2013 – 31/12/2013	**01/01/2012 – 31/12/2012**
Revenues	(1)	141,223	155,430
Change in inventory of work in process	(2)	0	3,299
Overall performance		**141,223**	**158,729**
Other operating income	(3)	5,441	7,799
Cost of materials	(4)	119,609	146,167
Personnel expenses	(5)	14,578	21,073
Depreciation and amortisation		1,663	5,957
Other operating expenses	(6)	12,288	25,171
Operating result		**– 1,475**	**– 31,840**
Result from associated companies	(8)	68	50
EBIT		**– 1,407**	**– 31,790**
Financial income		158	226
Financial costs		5,210	5,727
Financial result	(9)	**– 5,052**	**– 5,501**
Consolidiated net income before income taxes (EBT)		**– 6,459**	**– 37,291**
Income taxes	(10)	2,847	300
Consolidiated net income for the period		**– 9,306**	**– 37,591**
– of which due to minority interest		1,382	– 308
– of which due to majority shareholders		– 10,688	– 37,283
Earnings per share			
Earnings per share (basic) (in €)	(11)	– 1.45	– 5.06
Earnings per share (diluted) (in €)	(11)	– 1.45	– 5.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

pursuant to IFRS for the period from 1 January 2013 until 31 December 2013 k€	Notes D.	01/01/2013 – 31/12/2013	**01/01/2012 – 31/12/2012**
Consolidiated net income for the period		**– 9,306**	**– 37,591**
Transactions associated with minority interests		– 308	0
Differences from currency translation		– 433	34
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(27)	**– 741**	**34**
Overall performance		**– 10,047**	**– 37,557**
– of which due to minority interest		1,074	– 308
– of which due to majority shareholders		– 11,121	–37,249

CONSOLIDATED BALANCE SHEET

pursuant to IFRS as at 31 December 2013

ASSETS k€	Notes C. and D.	31/12/2013	31/12/2012
Noncurrent assets			
Intangible assets	(12,15)	794	1,180
Goodwill	(13,15)	298	298
Property, plant and equipment	(14,15)	15,126	15,612
Investments in associates	(16)	397	397
Other participating interests	(17)	151	161
Noncurrent receivables	(18)	486	497
Deferred tax assets	(10)	995	2,067
Noncurrent other financial assets	(23)	147	290
Total noncurrent assets		**18,393**	**20,501**
Current assets			
Inventories	(19)	3,083	11,593
Prepayments	(20)	85	331
Receivables from long-term construction contracts	(21)	5,354	665
Trade receivables	(22)	13,418	26,244
Current other financial assets	(23)	8,859	10,824
Current other non-financial assets	(25)	7,411	11,584
Current income tax assets		1,126	2,047
Cash and cash equivalents	(26)	10,029	8,862
Total current assets		**49,366**	**72,151**
Total assets		**67,758**	**92,652**

LIABILITIES AND SHAREHOLDERS' EQUITY k€	Notes C. and D.	31/12/2013	31/12/2012
Equity			
Subscribed capital	(27)	7,373	7,373
Capital reserve	(27)	64,582	64,582
Accumulated other equity	(27)	65,949	– 55,035
Share of majority shareholders in consolidated equity		6,005	16,919
Share of minority interest in consolidated equity		1,458	384
Total equity		**7,464**	**17,304**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities	(28)	40,330	10
Noncurrent provisions	(29)	934	1,672
Deferred tax liabilities	(10)	3	32
Total noncurrent liabilities and provisions		**41,267**	**1,714**
Current liabilities and provisions			
Current financial liabilities	(28)	4	39,543
Liabilities from long-term construction contracts	(21)	2,401	1,759
Trade payables	(30)	4,784	17,799
Other financial liabilities	(31)	2,600	3,697
Other non-financial liabilities	(11)	4,561	5,550
Current provisions	(29)	3,934	4,791
Current income tax liabilities		744	495
Total current liabilities and provisions		**19,028**	**73,634**
Total liabilities and shareholders' equity		**67,758**	**92,652**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/2012 until 31/12/2013 k€	Notes C. and D.	Subscribed capital	Capital reserve	Accumulated other equity	Share of majority shareholders in consolidated equity	Share of minority interest in consolidated equity	Total equity
As per 1 January 2012		**7,373**	**64,528**	**– 17,787**	**54,114**	**692**	**54,806**
Reserve for share options	(27), (40)		54	0	54	0	54
Difference from currency translation	(27)		0	34	34	0	34
Change in companies to be consolidated			0	0	0	0	0
Consolidated net income/loss in 2012				– 37,283	– 37,283	– 308	– 37,591
As per 31 December 2012		**7,373**	**64,582**	**– 55,035**	**16,919**	**384**	**17,303**
As per 1 January 2013		**7,373**	**64,582**	**– 55,035**	**16,919**	**384**	**17,303**
Reserve for share options	(27), (40)		0	0	0	0	0
Difference from currency translation	(27)		0	– 433	– 433	0	– 433
Change in companies to be consolidated			0	207	207	– 308	–100
Consolidated net income/loss in 2013				– 10,688	– 10,688	1,382	– 9,306
As per 31 December 2013		**7,373**	**64,582**	**– 65,949**	**6,005**	**1,458**	**7,464**

CONSOLIDATED CASH FLOW STATEMENT

pursuant to IFRS for the period 2013 from 1 January 2013 until 30 December 2013 k€	Notes C. and D.	01/01/2013 – 31/12/2013	01/01/2012 – 31/12/2012
Consoldiated income before income taxes		– 6,459	– 37,291
Depreciation and amortisation	(6)	1,663	5,957
Other non-cash income (–) and expenses (+) (including result from associated companies)		– 289	12,519
Profit/loss from disposal of intangible assets and equipments		– 23	24
Financial income	(9)	– 158	– 226
Financial costs	(9)	5,210	5,727
Sub-total		**– 56**	**– 13,289**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	– 1,221	– 8,747
Non-cash changes in noncurrent assets	(14), (15)	– 17	– 15,069
Increase/decrease in inventories	(19)	8,291	35,068
Increase/decrease in prepayments	(20)	246	702
Increase/decrease in receivables from long-term construction contracts	(21)	– 4,688	14,330
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	12,301	3,611
Increase/decrease in assets	(23), (25)	6,207	– 666
Increase/decrease in liabilities	(30), (31)	– 14,462	– 15,275
Funds generated by operating activities		**6,601**	**665**
Interest paid	(9)	– 3,901	– 4,211
Income taxes paid	(10)	– 384	– 5,695
Cash flow from operating activities		**2,316**	**– 9,241**
Proceeds from associated companies		0	47
Proceeds from disposal of intangible assets and equipment		33	22
Purchase of intangible assets and equipment	(12), (14), (15)	– 896	– 353
Cash flow from investing activities		**– 863**	**– 283**
Payments in connection with financial liabilities	(28)	781	14,752
Commission for syndicated loan agreement		– 1,225	– 2,964
Interest income		158	186
Cash flow from financing activities		**– 286**	**11,974**
Changes in cash and cash equivalents		1,167	2,450
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		**1,167**	**2,450**
Cash and cash equivalents at the start of the period	(26)	8,862	6,412
Cash and cash equivalents at the end of the period	(26)	10,029	8,862
Increase/decrease in cash and cash equivalents		**1,167**	**2,450**

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE 2013 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As of 31 December 2013, the Phoenix Solar Group (also referred to hereinafter as the Phoenix Group) consisted of 22 companies with a total of 120 (2012: 228) employees (including temporary employees, excluding members of the Executive Board).

The parent company, which is also the high-level parent company of the Group, is a corporation (stock corporation) and in accordance with the resolution adopted by the annual general meeting of the former Phoenix 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 27 June 2006. 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 the parent company comprises the development, production, sales, operation and administration of components and systems for generating energy from renewable energy sources, and the assembly and maintenance of such equipment. The Phoenix Group also distributes components and systems for generating energy from renewable energy sources. The company is entitled to engage in any business which directly or indirectly serves the purpose of the enterprise. It may set up branch operations or branch offices at home and abroad and take holdings in identical or similar facilities. It may pursue the object of the company as a holding company either wholly or in part. In 2013 the company's activities took place almost exclusively in North America, Asia and in the Eurozone.

(2) INFORMATION ON ACCOUNTING STANDARDS

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) to be applied as of 31 December 2013 as issued by the International Accounting Standards Board (IASB) in London and adopted by the EU in the time until the preparation of the present consolidated financial statements. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to the financial year 2013 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 para. 1 of the German Commercial Code (HGB) have been observed in the present consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement plus the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the additional Group management report. The consolidated financial statements were prepared on the basis of the going-concern principle and the historical cost principle, with the exception of the fair model value applied for purposes of measuring the value of derivative financial instruments.

The consolidated financial statements are denominated in EUR, 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 EUR is used, such as k€, for example, such fact will be indicated in the respective denomination.

The preparation of consolidated financial statements requires the use of estimates and assumptions that may 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:

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

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

Because the cost-to-cost method is applied in nearly all divisions of the company, 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. 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**

In those cases in which no primary market exists, the fair value of financial instruments must be determined 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. The three levels used are as follows:
- Level 1 – price quotations for similar instruments
- Level 2 – directly observed market input factors if not already contained in 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 judgements, to some extent. Such discretionary judgements 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 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**

As far as performance-related compensation is concerned, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals has, so far been applied. In order to ensure a suitable compensation system for the future, long-term incentives were taken into account to the extent that both an EBIT barrier and a bonus index system with multipliers developed by the Swiss research company Obermatt were put in place. However this system was no longer adequate against the background of major changes taking place in the entire solar industry, insolvencies among similar companies, and the comprehensive restructuring and realignment of Phoenix Solar and its administrative costs. The performance-related compensation was therefore changed to a flexible format with agreed targets which enable the Supervisory Board to agree or set targets tailored to the particular situation of the company and the areas of responsibility of individual board members, and to shape the variable remuneration as a function of achieving those targets. The basis for assessing targets always covers several years in order to reflect sustainable growth. However, the Supervisory Board may depart from this principle depending on the company's situation and for example select a one-year timeframe. Advantage was taken of this option in 2013 due to the special restructuring situation with the fundamental realignment of the company.

- **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. Due to a lack of industry-specific long-term experience, statistical methods must be applied to a great 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. As a consequence, therefore, it cannot be ruled out that over the coming periods provisions will not match sales growth or the materials and services used.

a) The following new standards and interpretations or changes to existing standards and interpretations have to be applied for the first time for financial years starting from 1 January 2013:

- **Change to IFRS1: "First-time application of International Financial Reporting Standards"** – Introduction of an exemption rule following high inflation and removal of some fixed timings contained in the standard as well as the facilitation of government loans.
- **Change to IAS 1: "Presentation of financial statements"** – Rule governing the way in which items are shown in other comprehensive income (OCI) in the statement of comprehensive income.
- **Changes to IFRS 7: "Financial instruments: Details" and IAS 32: "Financial instruments: Presentation"** – Amendments and changes with regard to the extension of disclosure requirements in netting financial assets and financial liabilities. The change to IAS 32 clarifies the meaning of some of the rules applicable to offsetting financial assets and financial liabilities in the statement of financial position.
- **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 Principles (US GAAP). IFRS 13 offers guidance for measuring fair value to the extent that fair value measurement is required by other IFRS's; IFRS 13 does therefore not extend the scope of fair value measurement. The goal is to harmonise 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.
- **Change to IAS 12: "Income taxes"** – Change with regard to the way in which underlying assets are realised
- **Change to IAS 19: "Employee benefits"** – Central to the change to IAS 19 is the abolition of the so-called corridor method. Discrepancies between pension obligations shown in the statement of financial position and actual pension obligations existing in the form of actuarial profits and losses are no longer permitted from 1 January 2013. Because the Phoenix Group does not maintain any such pension plans, these changes will have no effect on the financial statements and disclosures of the Phoenix Solar Group.

The review of newly applicable Standards was not yet completed as of the reporting date. The presentation of the newly applicable Standards, changes and interpretations which may be relevant to the Group was shown under Item a) with a corresponding comment.

b) Standards, changes and interpretations which are not compulsory nor applied early

The following Standards, changes and interpretations had been published by the reporting date and must be applied by 1 January 2014 at the earliest:

- **FRS 10: "Consolidated Financial Statements", IFRS 11: „Joint Arrangements" and IFRS 12: „Disclosure of Interests in Other Entities"** as a comprehensive project for reform:
  - IFRS 10 establishes a uniform definition for the term control and therefore a uniform basis for identifying the existence of a parent-subsidiary relationship and the related delineation of the consolidation group.
  - 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 Ventures" as the rules previously relevant to questions relating to 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.

In November 2012, the IASB published further amendments to the consolidation standards IFRS 10, IFRS 12 and IAS 27 (see above). These amendments pertain to the consolidation of investment companies. The new rules have not yet been endorsed by the European Union. They must be applied in financial years that begin on or after 1 January 2014.

- **Adjustment to IAS 27 (2011): "Separate Financial Statements"** – now only contains the unchanged rules for IFRS separate financial statements. The new Standard replaces the previously relevant IAS 27 (2008): "Consolidated and Separate Financial Statements" and SIC-12: "Consolidation – Special Purpose Entities".
- **Change to IAS 28 (2011): "Investments in Associates and Joint Ventures"** was amended and adapted to reflect the new Standards IFRS 10, 11 and 12.

The new provisions were endorsed by the European Union in December 2012. Within the European Union, the rules must be applied in financial years that begin on or after 1 January 2014. The Phoenix Solar Group does not intend to apply them ahead of time. At the present time, the Phoenix Group anticipates that these publications will not lead to any changes in the consolidation group, but will only require additional disclosures in the notes to the consolidated financial statements. Because the amended version of IAS 27 applies only to separate financial statements and Phoenix Solar AG does not prepare separate IFRS financial statements pursuant to Section 325 para. 2a HGB, these amendments will have no effects on the Phoenix Solar Group.

- **Change to IFRS 9: "Financial Instruments"** – The change provides for a compulsory first date of application for IFRS 9 on 1 January 2015 or for financial years beginning thereafter. 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 and Hedge Accounting) of 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 in the transition period. 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 currently expects that these amendments will not necessitate any changes to the Group's previous accounting practices.

The IASB has published its Annual Improvements to IFRS's 2010 – 2012 Cycle which had the effect of amending seven Standards. The new regulations have to be applied retrospectively to financial years beginning on or after 1 January 2014 and have not yet been endorsed by the European Union. Phoenix Solar AG is currently assessing the resulting effects on the presentation of the Group's financial position, cash flows and results of operations and does not expect these amendments to result in material changes.

- In the changes to **IFRS 2: "Share-based payment"** the definitions of "condition of exercise" and "market condition" have been clarified and in addition the definitions of "condition of performance" and "condition of service" have been supplemented.
- The change to **IFRS 3: "Business Combinations"** clarifies that contingent consideration which is classified as an asset or liability must be measured at its fair value on each reporting date. Changes to the fair value (with the exception of adjustments made in the measurement period) must be shown as expenditure or income.
- The changes to **IFRS 8: "Operating Segments"** specify in particular that a company must disclose any discretionary decisions that were taken by the company's management when applying the summary criteria to operating segments.
- The change to **IFRS 13** concerns the basis for the conclusion in order to clarify that publication of IFRS 13 and the consequential changes to IFRS 9 and IAS 39 associated with it do not mean that the option not to discount short-term receivables and payables has been abolished.
- The changes to **IAS 16: „Property, Plant and Equipment"** mean that when a tangible asset is revalued the gross value is adjusted in a way that matches the revaluation of the carrying amount.
- The change to **IAS 24: „Related Party Disclosures"** clarifies that a company providing management services for the reporting entity or the parent company of the reporting entity, must be viewed as a related party to the reporting entity.
- The change to **IAS 38: „Intangible Assets"** means that when an intangible asset is revalued, the gross carrying amount is adjusted in a way that matches the revaluation of the carrying amount, and that the cumulative depreciation constitutes the difference between the gross carrying amount and the net carrying amount after any impairment losses.

In addition the IASB has published its "Annual Improvements to IFRS's 2011 – 2013 Cycle" which had the effect of amending four further Standards. The new regulations have to be applied retrospectively to financial years beginning on or after 1 January 2014 and have not yet been endorsed by the European Union.

(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 AUTHORIZATION FOR ISSUE

The financial statements were authorised for issue on 26 March 2014. Authorization was issued by the Executive Board and passed to the Supervisory Board for approval.

(5) CONSOLIDATION PRINCIPLES

CONSOLIDATED COMPANIES

All subsidiaries in accordance with the principles of IAS 27 were included in the consolidated financial statements of Phoenix Solar AG. The consolidation group belonging to the Phoenix Group has only changed marginally by comparison with 31 December 2012.

The following companies – permanent subsidiaries and project subsidiaries – formed part of the consolidation group as at 31 December 2013 in addition to Phoenix Solar AG (parent company):

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 Incorporated, San Ramon, Unites States of America	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., Muskat, Oman	Full consolidation	70 %
Phoenix Solar Fonds Verwaltung GmbH, 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 %
Grundstücksgesellschaft Jocksdorf II GmbH, Sulzemoos, Germany	Full consolidation	100 %
Scarlatti S.r.l., Eppan an der Weinstrasse, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
Sunpremier 2030 S.L., Madrid, Spain	Full consolidation	100 %
Bâtisolaire 3 SAS, Carpiquet, France	Full consolidation	100 %
Fe5 S.r.l., Milan, 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 %

The outstanding share of 25 percent of Horus S.r.l., Ragusa, was acquired in the first quarter 2013.

Plaxo S.L., Madrid, was deconsolidated in the first quarter 2013, Abalia Solar S.L., Madrid, in the second quarter 2013 due to the liquidation of both companies. Due to the deconsolidations Phoenix Solar AG suffered losses of subordinate importance to the earnings position.

Hexasolar was sold in July 2013. Phoenix SonnenFonds GmbH & Co. KG D4 was liquidated in December 2013.

Except for the companies mentioned above there have been no changes to the consolidation group of Phoenix Solar AG since the beginning of 2013.

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	Eqity as of 31/12/2013 k€	Profit/loss 2013 k€
Phoenix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	at equity	31.2 %	585	67

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.

k€	Total assets 31/12/2013 (HGB)	Total liabilities 31/12/2013 (HGB)	Equity 31/12/2013 (HGB)	Period profit or loss 2013 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	258	4	254	39
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	257	3	254	38
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	257	3	255	37
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	252	3	249	33
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	253	3	250	36
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	254	4	250	38
Aktena 5 GmbH & Co. KG	1,184	989	195	– 36

k€	Total assets 31/12/2012 (HGB)	Total liabilities 31/12/2012 (HGB)	Equity 31/12/2012 (HGB)	Period profit or loss 2012 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	300	9	290	42
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	299	8	290	42
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	269	8	288	40
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	291	8	283	37
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	295	8	286	40
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	293	7	285	39
Aktena 5 GmbH & Co. KG	1,416	48	192	– 56

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 presentation chosen corresponds to the new requirements of IAS 32 (changed) “Financial Instruments: Presentation” and IAS 1 (changed) “Presentation of Financial Statements” which largely permit the presentation of economic equity.

An existing 50 percent holding in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG is included in the consolidated financial statements neither as a joint venture nor 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 k€	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2012	Profit/loss 2012
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, Gruenwald, Germany	n.a.	50 %	214	– 73

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

The consolidation group was not expanded in the financial year 2013.

c) Associated companies

Associated companies are holdings on which the Group can exercise a significant influence even if it does not have 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.

Phoenix 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.

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. Expected 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) INDIVIDUAL ITEMS IN 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 19 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 write-down. 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 rental and lease agreements constitute operating leases and in the case of buildings have terms ranging from one to 17 years. The terms for company cars and photocopiers 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 write-downs of trading stock have been recognised in the income statement under the item of "Purchased goods and services". Write-downs of "work in progress" are recognised directly in the item of "Change in inventories".

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

ADVANCE PAYMENTS RENDERED

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

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

Upon initial recognition, non-derivative financial instruments are measured at fair value. Transaction costs 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 write-downs are charged, if necessary up to the full amount, against receivables which are not expected to be recoverable, with due consideration given to credit risks, interest rate risks and cash discount risks. General credit risk is accounted for by charging write-downs, 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 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.

Provisions for restructuring measures are recognised to the extent that a detailed, formal restructuring plan has been prepared and announced to the affected parties.

Provisions for anticipated losses under onerous contracts are recognised when the expected economic benefit to be gained under the contract is less than the unavoidable costs of fulfilling the contract.

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 it 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) APPROPRIATION OF EARNINGS

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 Sdn Bhd 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 Singapore dollar (SGD), the Malaysian ringgit (MYR) and the Omani rial (OMR), respectively; the corresponding items are translated into EUR 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 2013	Average exchange rate in 2013	Exchange rate on reporting date 2012	Average exchange rate in 2012
USD/EUR	1.37660	1.32797	1.32027	1.28577
AUD/EUR	n/a	n/a	1.26483	1.24939
OMR/EUR	0.52841	4.16717	0.50851	0.49336
SGD/EUR	1.74583	1.66097	1.61315	1.60617
MYR/EUR	4.53086	4.16717	4.01872	3.95584
SAR/EUR	5.16233	4.97886	4.94968	4.82024
BGN/EUR	1.95506	1.95873	1.95324	1.95440

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 **k€**	**2013**	**2012**
Components and Systems	56,713	72,454
Power plant	84,510	82,976
Total	**141,223**	**155,430**

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 kEUR 70,357 (2012: kEUR 29,337).

(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. As of the reporting date, the increase in work in progress amounted to kEUR 0 (2012: kEUR 3,299).

(3) OTHER OPERATING INCOME

Other operating income **k€**	**2013**	**2012**
Income from payment of claims for damages	12	616
Benefits in kind	85	189
Income from the release of provisions and liabilities	1,963	2,162
Electricity revenues	2,254	2,372
Income from disposal of property, plant and equipment	8	22
Income from reversal of write-downs	164	1,473
Income from foreign exchange gains	125	461
Other	830	504
Total	**5,441**	**7,799**

Electricity revenues in the financial year relate to feed-in tariffs from photovoltaic plants in Italy and France which were reclassified to tangible assets on the basis of a resolution passed by the Executive Board in 2012 to operate these plants on a permanent basis in the future.

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. In addition to reversals of provisions recognised in respect of projects, other provisions reversed by Phoenix Solar AG in the financial year included those recognised in respect of anticipated losses arising from rental agreements in the amount of kEUR 783.

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.

Income from the reversal of impairments resulted from the reversal of an impairment recognised in prior periods due to the receipt of cash flows in respect of the impaired asset, and from a changed estimate of the substantive value of assets as of the reporting date.

The other operating income comprised items that cannot be assigned to any of the foregoing items.

(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 k€	2012	2012
Expenses of purchased goods	105,067	117,436
Expenses of purchased services	14,542	28,731
Total	**119,609**	**146,167**

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) STAFF COSTS

The personnel expenses break down as follows:

Staff costs k€	2013	2012
Wages and salaries	12,662	16,840
Expenses of stock option plans	0	54
Social security	1,889	4,091
Expenses for pensions and other benefits	27	88
Total	**14,578**	**21,073**

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. An employer's contribution of kEUR 27 (2012: kEUR 88) was recognised in profit and loss in the past financial year. The Group has not extended any defined benefit pension commitments.

The expenses for other pension benefits amounted to kEUR 1 (2012: kEUR 2). They result from so-called "direct insurance contributions".

In connection with the restructuring plan which became necessary and was initiated in the final quarter of 2011, measures were required for the first time in 2012 and subsequently also in the financial year 2013 to actively reduce the number of employees. These measures were conducted in a socially acceptable manner on the basis of mutually agreed severance agreements to the greatest extent. Severance payments amounting to kEUR 1,928 (2012: kEUR 521) were paid in the financial year in connection with such severance agreements.

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

Employees (m/w)	2012	2012
Members of the Executive Board (parent company)	2	3
Permanent employees (m/f) (full-time and part-time)	149	248
Temporary employees	8	8
Total	**159**	**259**

(6) AMORTISATION AND DEPRECIATION

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to kEUR 1,663 in the financial year (2012: kEUR 5,957).

A detailed presentation of depreciation and amortisation can be found in the Statement of Changes in Noncurrent Assets in Note (15).

(7) OTHER OPERATING EXPENSES

Other operating expenses k€	2013	2012
Administrative expenses	5,969	13,261
Selling expenses	3,636	8,007
Operating expenses	843	724
Other expenses	1,840	3,179
Total	**12,288**	**25,171**

The reason for the pronounced decrease in other operating expenses in the amount of kEUR 12,883 in the financial year is again to be found in the restructuring programme launched in the final quarter of 2011 which focussed strongly on reducing other costs. The whole Group pressed ahead with implementing further cost-cutting measures.

The administrative expenses incurred in the financial year mainly consisted of rental expenses, legal and consulting expense, expenses for freelance workers and currency translation losses.

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, enquiry and order processing, calculating quotations, statistics, invoicing, reminders as well as management of the total process.

Operating costs comprise the necessary wear and tear on assets associated with maintaining the operations of the Phoenix organisation. They include expenses for Investor Relations, expenses in connection with owner or shareholder information and the annual report, expenses for the shareholders' meeting, for quality assurance, etc.

In 2013, Research and Development costs in the amount of kEUR 26 (2012: kEUR 45) were recognised as operating costs for profit and loss in the financial year 2013.

(8) RESULT FROM ASSOCIATED COMPANIES

Income from associated companies amounted to kEUR 68 in the financial year (2012: kEUR 50).

(9) FINANCIAL RESULT

The financial result improved by kEUR 449 by comparison with the previous year. Interest expenses of kEUR 5,210 (2012: kEUR 5,727) consisting mainly of financing loans are to be viewed against interest income of kEUR 158 (2012: kEUR 226) generated primarily by call accounts. The interest capitalisation of accruals brought interest earnings of kEUR 25 (2012: kEUR 159). No interest on qualified assets was capitalised, either in financial year or in the prior year.

(10) INCOME TAXES

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

Income taxes k€	2013	2012
Current taxes	1,695	1,463
Deferred taxes	1,152	– 1,163
Total	**2,847**	**300**

The income tax expenses presented in the financial year 2013 amounting to kEUR 2,847 (2012: kEUR 300) are kEUR 4,571 lower than the expected income tax revenues of kEUR 1,724 (2012: kEUR 9,957) which would theoretically result from applying an unchanged domestic tax rate of 26.7 percent (2012: 26.7 percent) to the Group’s pre-tax earnings.

k€	2013	2012
Income taxes of the current year	720	1,463
Income taxes of the previous years	975	0
Total	**1,695**	**1,463**

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

Reconciliation **k€**	**2013**	**2012**
Earnings before income taxes	– 6,459	– 37,291
Calculated income taxes	**2,847**	**300**
using calculated tax rate of 26.7 % (2012: 26.7 %)	– 1,724	– 9,957
Differences	**4,571**	**10,257**
Differences between calculated and actual income tax expenses resulting from:		
- Non-period income taxes	– 868	717
- Tax effect of non-deductible expenses for stock options	0	14
- Tax effect of other non-deductible expenses	326	1,093
- Tax effect of differing tax rates	– 164	90
- Tax effect arising from the application of tax losses (–) that had not previously been recognised and from the non-recognition of losses (+)	3,974	8,442
- Tax effect of differing tax bases	– 24	85
- Tax effect of consolidation	– 412	– 185
- Other discrepancies	3	– 184
Total	**4,571**	**10,257**

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.

CURRENT TAX INCOME/EXPENSES

The balance on the accounting date comprises tax claims of kEUR 1,126 (2012: kEUR 2,047) and tax liabilities of kEUR 744 (2012: kEUR 495).

Income tax expenses and income are broken down as follows:

Income taxes **k€**	**2013**	**2012**
Current taxes	1,695	1,463
- of which in Germany	582	278
- of which in foreign countries	1,113	1,185
Deferred taxes	1,152	– 1,163
- of which in Germany	0	0
- of which in foreign countries	1,152	– 1,163
Total	**2,847**	**300**

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

Deferred taxes by item k€	as of 01/01/2013	Deferred tax expenses	as of 31/12/2013
Loss carry-forwards capitalised	2,126	– 1,298	828
Measurement of provisions	59	66	125
Internally generated intangible assets	0	3	3
PoC measurement of construction contracts	14	– 13	1
Other/consolidation	136	– 178	– 42
Total	**2,035**	**– 1,044**	**991**
- thereof current	653		457
- thereof Noncurrent	1,382		534

A total of kEUR 0 (2012: kEUR 118) of deferred taxes were netted off. All changes in deferred taxes were recognised in profit or loss, both in the financial year 2013 and in the prior year.

In the expectation that the temporary differences will be reversed, deferred tax assets amounting to kEUR 828 (2012: kEUR 2,126) were recognised for losses sustained; deferred tax assets relating to tax losses in the amount of kEUR 141,874 (2012: kEUR 123,886) which will have to be earned through individual taxable results in the years 2014 - 2016, were not recognised for the time being as the Group is in a restructuring phase and the new planning first has to be confirmed. Consolidation measures result in deferred tax assets as of the reporting date of kEUR 995 (2012: kEUR 2,035). The values of the previous year were adapted in the course of the tax offsetting and reconciliation.

Loss carryforwards with a maximum expiration period of five years were recognised in the amount of kEUR 140 (2012: kEUR 154); loss carryforwards with a maximum expiration period of 20 years were recognised in the amount of kEUR 688 (2012: kEUR 1,973).

As in the last two years, no deferred taxes were recognised for outside basis differences in financial year 2013 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 kEUR 6,767 (2012: kEUR 2,787) were calculated as of 31 December 2013.

(11) EARNINGS PER SHARE

In accordance with IAS 33, the earnings per share are calculated from the consolidated profit after taxes and after non-controlling interests and from the average number of shares outstanding in the financial year 2013.

Basic earnings per share	**2013**	**2012**
Consolidated profit after taxes, in k€	– 10,688	– 37,283
Average number of shares outstanding (in units)	7,372,700	7,327,700
Basic earnings per share (in €)	**– 1.45**	**– 5.06**

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). Since neither in 2013 nor in 2012 any effects of potentially diluting shares arose, the undiluted result does not differ from the diluted result per share.

Diluted earnings per share	**2013**	**2012**
Consolidated profit after taxes, in k€	– 10,688	– 37,283
Average number of shares outstanding	7,372,700	7,372,700
Average number of shares outstanding (including potentially diluting shares)	7,372,700	7,372,700
Diluted earnings per share (in €)	**– 1.45**	**– 5.06**

As of 31 December 2013, the Group disposed of Authorised Capital after partial utilisation in the amount of kEUR 2,681 (2012: kEUR 2,681), which is unchanged from the previous year and 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 2013 has been added to the distributable profit as of 31 December 2013. The Executive Board of Phoenix Solar AG does not propose to distribute a dividend in this year either.

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(12) INTANGIBLE ASSETS

For the development of carrying amounts reference is made to the Consolidated Statement of Changes in Noncurrent Assets (Note (15)).

Scheduled depreciation is presented in the income statement in the item "Amortisation".

Significant intangible assets k€	Carrying Amount as of 31/12/2013	Carrying Amount as of 31/12/2012	Remaining amortisation period
ERP software	403	564	3 years
"Phoenix" Trademark	95	126	4 years
Development expenses	117	244	2 years

The intangible assets acquired also contain licensing rights from various suppliers of system and application software products.

Internally generated intangible assets are amortised with a useful life of eight years, acquired intangible assets with a useful life of between three and ten years.

(13) GOODWILL

The goodwill of Phoenix Solar Energy Investments AG (kEUR 272), 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 kEUR 235.

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

Goodwill k€	31/12/2013	31/12/2012
Power Plants	272	272
Components & Systems	0	0
Other	26	26
Total	**298**	**298**

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. In addition the carrying amounts of the cash-generating units are compared with their future income value. Future income value is determined using the discounted cash flow method. For this purpose current forecasts are used which are largely underpinned by external data on market growth, and which are based on the three-year medium-term plan approved by management and also used for internal

purposes. Significant assumptions upon which management's determination of achievable earnings is based, include forecasts of relevant market volumes, market prices and availability of solar modules, inverters and other articles in connection with the company's product range as well as regulatory conditions, growth rates and capital costs. The cash flows expected from the cash-generating units contained in the three-year medium-term plan are discounted by a weighted pre-tax capital cost rate of 8.8 percent for the domestic company. For purposes of calculating a perpetual annuity, an unchanged growth factor of one percent was assumed. An impairment loss is deemed to have occurred when the future income value is less than the carrying amount.

In the previous year, an impairment loss in the amount of kEUR 235 was charged against the good-will recognised in connection with the first-time consolidation of the company Renewable Energies Development 2002 (RED 2002) S.r.l. – later renamed Phoenix Solar s.r.l. As a result of this impairment, the carrying amount was reduced to the value-in-use. The goodwill items recognised as of the reporting date did not require impairment losses, even assuming that the revenues of one of the cash-generating units would be five percent less or that interest rates would be ten percent higher. 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.

In the previous year two photovoltaic plants completed in 2012 and originally intended for sale to third parties were transferred in the total amount of kEUR 15,069 from inventories to Noncurrent assets, by virtue of an Executive Board resolution. These photovoltaic plants were built by Phoenix Solar AG for the project companies Horus s.r.l., Italy, and Batisolaire 3 SAS, Carpiquet, France. As of the reporting date, they have a remaining depreciation period of 18 years. The photovoltaic plants are presented within the item of plant and equipment held by the company in the Statement of Changes in Noncurrent Assets.

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. Plant and equipment held by the company are depreciated over useful lives of 20 years.

(15) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in Noncurrent assets within the Phoenix Group

	Acquisition or production costs					
2013 k€	Balance at 01/01	Reclassifi-cation	Acquisition financial year	Disposal financial year	Currency Translation	Balance at 31/12
Internally generated intangible assets	109	0	19	0	0	128
Acquired intangible assets	6,679	0	15	2	0	6,692
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	0	15,069
Operational and business equipment	4,215	0	852	1,250	– 19	3,798
Leasehold improvements	1,284	0	0	0	0	1,284
Total Noncurrent assets	**27,889**	**0**	**886**	**1,252**	**– 19**	**27,504**
2012 **k€**	**01/01/**					**31/12/**
Internally generated intangible assets	223	– 114	0	0	0	109
Acquiredintangible assets	6,264	114	307	6	0	6,679
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	0	15,069	0	0	0	15,069
Operational and business equipment	4,694	0	46	523	– 2	4,215
Leasehold improvements	1,284	0	0	0	0	1,284
Total Noncurrent assets	**12,998**	**15,069**	**353**	**529**	**– 2**	**27,889**

(16) SHARES IN ASSOCIATED COMPANIES

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

The following changes to carrying amounts have been made in the current financial year:

k€	2013	2012
Carrying amount at 01/01	397	395
– Dividends	68	0
+ Profit shares	68	2
Carrying amount at 31/12	**397**	**397**

Accumulated Amortisation and Depreciation								
Balance at 01/01	Reclassifi-cation	Acquisition systematic	Acquisition un-scheduled	Disposal financial year	Currency Translation	Balance at 31/12	Carrying amounts 31/12/2013	Carrying amounts 31/12/2012
109	0	16	0	0	0	125	3	0
5,500	0	401	0	0	0	5,901	791	1,180
235	0	0	0	0	0	235	298	298
761	0	422	0	0	0	1,183	13,886	14,308
3,398	– 1	738	0	1,165	– 12	3,133	899	817
796	1	86	0	0	0	943	341	487
10,799	**0**	**1,663**	**0**	**1,165**	**– 12**	**11,285**	**16,218**	**17,090**
01/01						**31/12**	**31/12/2012**	**31/12/2011**
56	44	9	0	0	0	109	0	167
1,929	– 44	1,206	2,409	0	0	5,500	1,180	4,335
0	0	0	235	0	0	235	298	533
0	0	761	0	0	0	761	14,308	0
2,378	0	574	604	155	– 3	3,398	817	2,316
402	0	61	333	0	0	796	487	882
4,765	**0**	**2,611**	**3,581**	**155**	**– 3**	**10,799**	**17,090**	**8,233**

Measurements are made on the basis of individual financial statements converted to IFRS.

Aggregated financial information on the associated company k€	2013	2012
Assets	592	744
Payables	7	7
Sales	153	165
Equity*	585	737
Total assets	592	745
Net profit for year	**68**	**72**

* For presentational purposes the capitals of KG B1 are shown as equity although they should perhaps be classified as borrowed capital in accordance with IAS 32; this applies in particular to the owners' entitlement to severance payments.

(17) OTHER INVESTMENTS

The item of "other investments" in the financial year only contains a 50-percent share in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, which was founded in the financial year 2007. In 2013 it presented assets of kEUR 549 (2012: kEUR 1,168), liabilities and provisions of kEUR 334 (2012: kEUR 881), sales of kEUR 0 (2012: kEUR 0) and a pre-tax profit of kEUR - 70 (2012: kEUR 28). 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 kEUR 150 (2012: kEUR 150) is basically equal to the fair value. Until last year the Group also held cooperative shares in a bank which were disposed of in the reporting year on the basis of effective termination. Prior year figures were adjusted to match the financial statements as adopted as of 31 December 2012.

(18) NONCURRENT RECEIVABLES

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

This item also included security deposits in the amount of kEUR 36 (2012: kEUR 47). The security deposits bear interest at fair market rates of 1.5 percent p. a..

(19) INVENTORIES

The inventories break down as follows:

Inventories **k€**	**31/12/2013**	**31/12/2012**
Trading stock (historical value of goods)	6,693	23,283
Write-downs (cumulative to 31/12/ of the preceding year)	– 3,610	– 11,690
Net value	3,083	11,593
Presented in statement of financial position	**3,083**	**11,593**

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. There are no stocks in transit as of the reporting date (2012: kEUR 539).

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. Inventories were written down to the lower net realisable value in the amount of kEUR 718 in financial year 2013 (2012: kEUR 9,249).

The carrying amount of inventories recognised as period expenses amounted to kEUR 105,067 (2012: kEUR 117,436).

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 kEUR 63,474 (2012: kEUR 33,324). Most of these receivables were related to projects in the USA, Thailand, Singapore and France. Contract sales were recognised totalling kEUR 61,726 (2012: kEUR 28,574), contract costs of kEUR 52,982 (2012: kEUR 26,902), and profits of kEUR 8,744 (2012: kEUR 1,671). There were no foreign currency effects in the profits in the reporting year (2012: kEUR 4). Furthermore, liabilities under long-term construction projects were recognised in the amount of kEUR 2,401 (2012: kEUR 1,759).

Advance payments on the contracts totalling kEUR 58,015 (2012: kEUR 31,613) were received and a further kEUR 1,004 (2012: kEUR 687) was requested.

In consideration of the requested and recognisable down payments and partial invoices, the presented amount of kEUR 5,354 (2012: kEUR 665) breaks down as follows:

k€	31/12/2013	31/12/2012
Receivables under long-term construction contracts taking into account partial invoices based on stage of completion	5,136	317
Plus requested, recognisable partial invoices	218	348
Presented in statement of financial position	**5,354**	**665**

Payments in respect of receivables under long-term construction contracts are expected in the time periods presented in the table below. It is assumed that on the one hand contracts in process will be fulfilled on time in accordance with the planned payment agreement periods (so-called milestones) and on the other there will be no major timing differences between the time when the milestone conditions are contractually fulfilled and the corresponding cash inflow. To this extent this presentation is different to that used when payment deadlines are exceeded, for example, in the case of trade receivables (see Note (22)).

k€		Expected Receipt of Payment			
As of 31/12/2013	**Carrying amount**	**In fewer than als 30 days**	**Between 31 and 90 days**	**Between 91 and 360 days**	**In more than 360 days**
Receivables under long-term construction contracts	5,354	2,917	363	2,074	0
As of 31/12/2012					
Receivables under long-term construction contracts	665	395	25	245	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 k€	31/12/2013	31/12/2012
Gross receivables	18,755	31,238
Less writedowns	– 5,337	– 4,994
Amount presenetd in the statement of financial position	**13,418**	**26,244**

The fair values of trade receivables are equal to their carrying amounts. Although the payment terms used reflect both customer-specific credit ratings and regional payment peculiarities, write-downs were still required on receivables which were probably irrecoverable and on the basis of the receivables portfolio.

The following breakdown shows the maturity structure of the receivables without the write-downs, i.e. in contrast to the breakdown of receivables under long-term construction contracts (see Note (21)), the time bands shown represent payment dates exceeded for receivables already realised on the reporting date but not written down.

k€		not written down and due on reporting date				
As per 31/12/2013	**Total**	**Neither written down nor due**	**for less than 30 days**	**Between 31 and 90 days**	**Between 91 and 360 days**	**Since more than 360 days**
Trade receivables	**13,418**	113	81	2,841	10,383	0
As of 31/12/2012						
Trade receivables	**26,244**	555	1,188	16,386	8,115	0

The write-downs charged against trade receivables attributable to the measurement category “Loans and Receivables” showed the following development in the reporting year:

k€	2013	2012
Write-downs as per 01/01	4,994	5,453
Utilisation	– 979	– 476
Release	– 318	– 715
Addition	1,640	1,623
Write-downs as per 31/12	**5,337**	**4,994**

The following table shows the expenses for the complete charge-off of trade receivables:

k€	2013	2012
Expenses for the charge-off of receivables	145	834

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 kEUR 1.047 bearing interest at the rate of 6.5 percent until 30 September 2012 and maturing at the end of 2013 to the subsidiary SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. As of the reporting date, the loan was paid down to an amount of kEUR 124. Effective 1 October 2013, the interest rate was reduced to 0.0 percent, by virtue of an agreement concluded in December 2012.

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

b) Current other financial assets

The current other financial assets break down as follows:

Other current financial assets **k€**	**31/12/2013**	**31/12/2012**
Other receivables	4,640	2,858
Advance payments	3,112	7,036
Debit balances in supplier accounts	616	792
Other	491	138
Total	**8,859**	**10,824**

Current financial assets of this kind are secured by retentions of title.

The other current receivables are unchanged at kEUR 1,278 (2012: kEUR 1,278) and relate mainly to deposit securities in connection with the construction of photovoltaic plants.

c) The following tables show the expect receipt of payment for other financial assets:

k€	Expected Receipt of Payment				
As per 31/12/2013	Carrying amount	In less than 30 days	Between 31 and 90 days	Between 91 and 360 days	In over 360 days
Financial assets	9,006	4,219	120	4,520	147
Due in one year or less	8,859	4,219	120	4,520	0
Due in more than one year	147	0	0		147
As per 31/12/2012					
Financial assets	11,114	7,966	1,580	1,278	290
Due in one year or less	10,824	7,966	1,580	1,278	0
Due in more than one year	290	0	0	0	290

(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.

2013 k€	Measurement category per IAS 39*	Carrying amounts	Carrying amounts within the scope of IFRS 7	Fair value
Other investments	AfS	151	151	151[1)]
Noncurrent receivables	LaR	486	486	486
Other noncurrent financial assets	LaR	147	147	147
Receivables under long-term construction contracts	LaR	5,354	5,354	5,354
Trade receivables	LaR	13,418	13,418	13,418
Other current financial assets	LaR	8,859	8,859	8,859
Cash and cash equivalents	LaR	10,029	10,029	10,029
Total assets		**38,444**	**38,444**	**38,444**
Noncurrent financial liabilities	AmC	40,330	40,330	40,330
Current financial liabilities	AmC	4	4	4
Total financial liabilities		**40,334**	**40,334**	**40,334**
Liabilities under long-term construction contracts	AmC	2,401	2,401	2,401
Trade payables	AmC	4,784	4,784	4,784
Other financial assets		2,600	2,600	2,600
Total financial liabilities		**9,785**	**9,785**	**9,785**

* 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.

2012 k€	Measurement category to IAS 39*	Carrying amounts	Total carrying amounts within the scope of IFRS 7	Fair value
Other investments	AfS	161	161	161
Noncurrent receivables	LaR	497	497	497
Other Noncurrent financial assets	LaR	290	290	290
Receivables under long-term construction contracts	LaR	665	665	665
Trade receivables	LaR	26,244	26,244	26,244
Other current financial assets	LaR	10,824	10,824	10,824
Cash and cash equivalents	LaR	8,862	8,862	8,862
Total assets		**47,543**	**47,543**	**47,543**
Noncurrent financial liabilities	AmC	10	10	10
Current financial liabilities	AmC	39,543	39,543	39,543
Total financial liabilities		**39,553**	**39,553**	**39,553**
Liabilities under long-term construction contracts	AmC	1,759	1,759	1,759
Trade liabilities	AmC	17,799	17,799	17,799
Other financial liabilities	AmC	3,697	3,697	3,697
Total financial liabilities		**23,255**	**23,255**	**23,255**

* 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, 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:

2013 k€	LaR	AmC	AfS	HfT	Total
Interest income	158	0	0	0	158
Interest expenses	0	– 5,210	0	0	– 5,210
Net earnings	**158**	**– 5,210**	**0**	**0**	**– 5,052**

2012 k€	LaR	AmC	AfS	HfT	Total
Interest income	226	0	0	0	226
Interest expenses	0	– 5,727	0	0	– 5,727
Changes in fair value expenses from impairment losses	0	0	0	98	98
Net earnings	**226**	**– 5,727**	**0**	**98**	**– 5.403**

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 totalling kEUR 7,411 (2012: kEUR 11,584) mainly comprise foreign VAT receivables in the amount of kEUR 3,619 (2012: kEUR 9,029).

(26) CASH AND CASH EQUIVALENTS

The cash and cash equivalents due in 3 months or less are presented in the table below:

Cash and cash equivalents k€	31/12/2013	31/12/2012
Cash on hand	2	2
Cash in banks	10,027	8,860
Total	**10,029**	**8,862**

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 for credit balances in banks in the financial year 2013 lay between 0.05 percent and 0.1 percent (2012: 0.1 percent and 0.4 percent).

(27) EQUITY

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

The share capital on 31 December 2013 was kEUR 7,372.7 (2012: kEUR 7,372.7), divided into 7,372,700 (2012: 7,372,700) no-par bearer shares (ordinary shares) and had been fully paid in by the reporting date for the consolidated financial statements.

By resolution of the annual general meeting of 14 July 2011, the Executive Board was authorised to annul, to the extent it will not have been utilised, the authorization 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 utilisation). 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 authorised to decide on the exclusion of the shareholders' subscription right, with the consent of the Supervisory Board. It can, with the consent of the Supervisory Board, 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 market price of the company's shares endowed with the same rights. However, this authorization is subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorization under exclusion of the subscription right pursuant to Sections 203 para. 1, 186 para. 3 (4) of the German Stock Corporations Act does not exceed ten percent of the company's share capital at the time when the present authorization takes effect or when it is exercised, whichever is lower. The percentage of share capital made up of shares which are sold during the term of this authorization pursuant to sec 71 para. 1 (8) (5), 186 para. 3 (4) of the German Stock Corporations Act, and the percentage made up of shares which are or are to be issued in order to service option or conversion rights or to fulfil option or conversion rights from bonds, are to be counted towards this maximum limit of ten percent of the share capital provided that the bonds are issued during the term of this authorization under exclusion of the subscription right with analogous application of Section 186 para. 3 (4) of the German Stock Corporations Act;

b) in order to issue new shares in exchange for in-kind capital contributions, particularly for the purpose of acquiring companies, parts of companies and/or investments in companies. However, this authorization is limited to the extent that the number of shares issued under exclusion of the subscription right after the exercise of this authorization or another authorization granted by the annual general meeting (including the authorizations defined in Sections a and c of the present resolution) does not exceed 20 percent of the share capital at the time when this authorization takes effect or when it is exercised, whichever is lower;

c) for fractional amounts: The Executive Board is authorised 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 authorised 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 eighth capital increase conducted on 13 July 2010 at a placement price of EUR 32.00 per share raised gross issue proceeds of kEUR 21,446.4. After deduction of the kEUR 670.2 appropriated to share capital and the net capital increase costs of kEUR 314.7, the additional paid-in capital was increased by kEUR 20,461.5. An additional amount of kEUR 33.0 consisting of premiums resulting from the exercise in financial year 2010 of 1,800 stock options issued in 2007 was recognised; no stock options were exercised in 2011, 2012 or 2013.

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. To that end, a Conditional Capital of kEUR 553 was created. By virtue of this authorization, 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, 253,850 of those stock options had expired due to resignations and 18,000 had been exercised. This leaves 68,500 stock options as of the reporting date. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company will not have been terminated by either party at the time of exercising the stock options. The stock option plan was terminated following a resolution passed by the annual general meeting on 14 July 2011 and the Conditional Capital was duly cancelled.

The Executive Board resolved not to distribute a dividend for financial year 2012.

The accumulated other comprehensive income underwent the following changes in financial year 2013:

k€	
Balance at 01/01/2013	– 55,035
Currency difference	– 433
Change to consolidation group	207
Consolidated loss for period	– 10,688
Balance at 31/12/2013	**– 65,949**

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 investments in Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia.

DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Capital management is handled centrally for the Phoenix Solar 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 is book equity.

As a consequence of these goals, one essential task of capital management in connection with the syndicated credit facility obtained in the financial year was to monitor compliance with the minimum equity and minimum EBITDA indicators agreed as covenants with the financing entities.

Taking into consideration the company's decision to close loss-making business units in 2013, the credit facility was extended on 11 February 2013 with a total volume of kEUR 126,000 until 31 March 2015. Also in this case, an important element of the financing package is a syndicated loan in the amount of kEUR 95,574.

(28) FINANCIAL LIABILITIES

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

Financial liabilities k€	31/12/2013	31/12/2012
Noncurrent financial liabilities (residual term more than 1 year)	40,330	10
Current financial liabilities (residual term up to 1 year)	4	39,543
Total	**40,334**	**39,553**

On account of the agreement amending the existing loan agreement concluded on 11 February 2013, the amounts owed to banks at the reporting date are classified as current liabilities. The current financial liabilities are secured under the terms of a global assignment agreement for the receivables and inventories of Phoenix Solar Aktiengesellschaft and the pledging of interests in major subsidiaries of Phoenix Solar Aktiengesellschaft.

Information on the scope of the syndicated loan agreement is provided in Note (39) on the subject of liquidity risk.

k€	Book value/ Market value	Remaining amortisation period up to 1 year	Remaining amortisation period 1 to 5 years
as per 31/12/2013			
Financial liabilities	40,334	4	40,330
as per 31/12/2012			
Financial liabilities	39,553	39,543	10

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 k€	**Balance at 01/01/2013**	**Reclassi-fication**	**Utilisation**	**Release**	**Compound Interest**	**Addition**	**Balance at 31/12/2013**
Warranty provisions	1,302	– 317	0	– 225	17	15	792
Restoration obligations	151	0	0	– 60	0	0	91
Other	218	0	– 50	– 122	0	5	51
Total	**1,672**	**– 317**	**– 50**	**– 407**	**17**	**20**	**934**

Current provisions k€							
Warranty provisions	1,921	317	– 482	– 41	0	564	2,279
Litigation and arbitration costs	600	0	0	0	0	142	742
Provisions for anticipated losses	2,252		– 973	– 771	0	0	508
Other	18	0	– 2	– 12	8	108	405
Total	**4,791**	**317**	**– 1,457**	**– 824**	**8**	**814**	**3,934**

The warranty provision has been established to account for statutory and contractual warranty obligations and for accommodation payments to customers. Nearly all the Noncurrent warranty provisions related to the project business have a term of up to five years.

The provisions for litigation and arbitration costs are composed of two kinds of costs: anticipated costs due to court proceedings against customers for unpaid invoices and claims asserted by customers as of the reporting date, which are at least partially unfounded from the Group's perspective. These items are always evaluated on the basis of the prospects for out-of-court settlements. As of the reporting date, the Management estimates a maximum additional cost for litigation and arbitration costs of 10 percent, at most; the period considered for that purpose is up to three years.

The other Noncurrent provisions include, in particular, the provision for site restoration obligations and the provision for the obligation to archive business documents. Other current provisions usually only contain cases where each individual valuation is of secondary importance. The terms of the provisions range from nine to twenty years. In the financial year 2013 this provision item contains a provision for an anticipated tax risk to Phoenix Solar s.r.l., Italy, in the amount of kEUR 284.

(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 those 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 **k€**	**31/12/2013**	**31/12/2012**
Deferred sales commissions	182	182
Deferred sales	362	0
Commitments to former shareholders	235	419
Credit balances in customer accounts	0	206
Purchase price down payments for project companies	0	1,845
Other	1,821	1,009
Total	**2,600**	**3,697**

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

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 **k€**	**31/12/2013**	**31/12/2012**
VAT liabilities	313	1,590
Liabilities under wage tax and social security	155	345
Personnel-related liabilities	2,108	2,513
Liabilities from downpayments received	1,941	1,068
Other	44	34
Total	**4,561**	**5,550**

The personnel-related liabilities pertain to the following matters:

Personnel-related liabilities **k€**	**31/12/2013**	**31/12/2012**
Liabilities under current employment contracts	178	137
Liabilities under bonus commitments	1,485	1,417
Liabilities for overtime and/or vacation claims	200	640
Severance liabilities	0	100
Other	244	219
Total	**2,108**	**2,513**

E. ADDITIONAL 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 kEUR - 433 (2012: kEUR 34). As in previous years the other income did not attract any income tax (2012: kEUR 0).

(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. This means that the cash flow from operating activities is calculated as follows: The consolidated earnings for the period before taxes are adjusted to take out non-cash amounts and supplemented by the changes in current assets and liabilities. Interest and tax payments are then applied to arrive at the cash flow from operating activities.

The reduction in inventories (kEUR 8,291) and the changes to supplier receivables (kEUR 12,301) had a significantly positive effect on the operating cash flow. Furthermore, non-cash write-downs on inventories in the amount of kEUR 718 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 kEUR 14,461, and work performed in connection with the project business (kEUR 4,688).

The cash flows from investing activities and financing activities are both 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 the financial year 2013 by means of drawdowns under the syndicated working capital credit facility (see Notes (28) and (39)).

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)). Cash funds are not subject to any restrictions on disposal.

Significant non-cash transactions include changes to the measurement of inventories amounting to kEUR 718 (2012: kEUR 9,249), appropriations of write-downs or depreciation of the receivables portfolio in the amount of kEUR 1,322 (2012: kEUR 1,162).

F. OTHER DISCLOSURES

(34) SEGMENT REPORTING

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, as well as Operation & Maintenance (O&M) services;
- Components & Systems: Distribution of trade articles

The operating profit or loss is segmented on the basis of cost accounting reports. When the revenues of the Power Plants segment pertain to project-related work, the corresponding pro-rated profits are recognised as of the reporting date.

The other indicators to be segmented with regard to the Power Plants and Components & Systems segments are divided up by principal activity 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 2013 k€	Power Plants	Components & Systems	Other	Consoli-dation	Group
Segment profit or loss statement					
External revenues	84,510	56,713	0	0	141,223
Segment revenues	**84,510**	**56,713**	**0**	**0**	**141,223**
Segment profit or loss	– 3,295	1,820	0	0	– 1,475
Income from associated companies	68	0	0	0	68
EBIT					– 1,407
Financial result					– 5,052
Consolidated profit/loss before taxes					– 6,459
Income taxes					– 2,847
Consolidated profit/loss for period					**– 9,306**
– thereof attributable to non-controlling interests					1,382
– thereof due to majority shareholders					– 10,688
Other information					
Investments	743	143	0	0	886
Amortisation and depreciation	995	668	0	0	1,663
Non-cash expenses	731	854	0	0	1,585
Non-cash income	979	844	0	0	1,823
Assets					
Segment assets	33,455	22,433	23	0	55,911
Shares in associated companies	397	0	0	0	397
Non-assigned assets					12,426
Consolidated assets					**68,733**

Financial Year 2012 k€	Power Plants	Components & Systems	Other	Consoli-dation	Group
Segment profit or loss statement					
External revenues	82,976	72,454	0	0	155,430
Segment revenues	**82,976**	**72,454**	**0**	**0**	**155,430**
Segment profit or loss	– 22,039	– 9,801	0	0	– 31,840
Income from associated companies	50	0	0	0	50
EBIT					– 31,790
Financial result					– 5,501
Consolidated profit/loss before taxes					– 37,291
Income taxes					– 300
Consolidated profit/loss for period					**– 37,591**
– of which attributable to non-controlling interests					308
– thereof due to majority shareholders					– 37,283
Other information					
Investments	192	161	0	0	353
Amortisation and depreciation	3,062	2,895	0	0	5,957
Non-cash expenses	4,766	10,875	0	0	15,641
Non-cash income	2,444	627	0	0	3,071
Assets					
Segment assets	42,115	35,345	23	0	77,482
Shares in associated companies	397	0	0	0	397
Non-assigned assets					14,773
Consolidated assets					**92,652**

The revenues of the Power Plants segment derive mainly 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. As of the reporting date the sum of these sales amounts to kEUR 61,726 (2012: kEUR 28,574). By reason of the business model and the goods and services offered on that basis, intersegment revenues are excluded, as a general rule. Given the current customer portfolio, there is also no real concentration of revenues on any one or a few customers; 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 write-downs and changes in the fair value of options; non-cash expenses include the recognition of write-downs and the charge-off of receivables.

With regard to the transfer prices applied, intragroup trading is conducted at terms that meet the criteria of an arm's-length transaction. Overhead costs attributable to Group headquarters are not allocated to the operating segments, as a general rule.

The sales revenues of external customers are allocated to the regions or project locations presented on the basis of the delivery address.

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

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

k€	2013	2012
Home	16,667	46,428
EU, not including home market	33,188	69,799
USA	53,761	23,228
Asia	37,607	15,975
Total	**141,223**	**155,430**

Noncurrent assets were divided among the regions as follows:

k€	31/12/2013	31/12/2012
Home	2,073	1,859
EU, not including home market	13,972	15,291
USA	318	1,002
Asia	164	48
Total	**16,527**	**18,200**

(35) DISCLOSURES OF TRANSACTIONS WITH RELATED PERSONS AND COMPANIES

In accordance with IAS 24 related persons and companies for the Phoenix Group are persons and companies that control the Phoenix Group or exercise a determining influence on it or who are controlled or significantly influenced by the Phoenix Group.

As well as the business relationships with the subsidiaries included in the consolidated financial statements in the process of full consolidation for which no disclosures have to be made, the following business relationships existed with related parties.

Phoenix Solar AG granted a loan of EUR 1,047 (2011: kEUR 650) to SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG in which it has a holding. Interest was charged on the loan at a rate of 6.5 percent until 30 September 2012 which is due on maturity and the loan matured at the end of 2013. As of the reporting date, the loan was paid down to an amount of kEUR 124. On the basis of an agreement the interest rate was reduced to 0.0 percent from 1 October 2012.

Disclosures on shares held by directors and officers:

Executive Board	**31/12/2013 No. of Shares**	**31/12/2012 No. of Shares**
Dr. Andreas Hänel (resigned 28/02/2013)	n.a.[1]	266,380
Dr. Bernd Köhler (appointed 01/12/2011)	0	0
Dr. Murray Cameron	69,750	69,750
Olaf Laber (appointed 01/04/2014)	0	
Total holdings of Executive Board members	**69,750**	**336,130**

[1] not applicable as there is no more reporting obligation after the resignation

Supervisory Board	**3/.1/.2013 No. of Shares**	**3/.1/.2012 No. of Shares**
J. Michael Fischl	0	0
Prof. Dr. Thomas Zinser	0	0
Oliver Gosemann	100	20,367
Total holdings of Supervisory Board members	**100**	**20,367**

In connection with the Stock Option Plan 2006, the following stock options were granted to the Executive Board: In financial year 2007 each member of the Executive Board was granted 4,500 option rights: the fair value of an option at the time of issue was EUR 10.177. In financial years 2008 and 2009 each member of the Executive Board active at the time of issue was granted 9,000 further option rights; the fair value at the time of granting was EUR 20.174 or EUR 17.972 per option right. Further option rights were also granted in financial year 2010 to members of the Executive Board active at the time of issue; the fair value at the time of granting was EUR 13.912 per option right.

In addition, the compensation paid to the Executive and Supervisory Boards constitutes transactions with related persons. For a detailed description please refer to Note (42) or (43).

(36) CONTINGENT LIABILITIES

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 CONTINGENT LIABILITIES

There were no contingent assets or liabilities.

(38) OTHER FINANCIAL COMMITMENTS

The Group had total financial commitments of kEUR 3,506 (2012: kEUR 6,216) under various rental and lease agreements. Of this total amount an amount of kEUR 967 (2012: kEUR 1,687) is due within one year, kEUR 1,797 (2012: kEUR 2,601) has a residual term between one and five years, kEUR 1,928 (2012: kEUR 1,928) has a residual term of over five years. Rent extension options of five years have been agreed in some property contracts.

The firm orders for Noncurrent assets amounted to kEUR 60 (2012: kEUR 44). As of the reporting date there are no obligations arising from long-term purchasing contracts with suppliers.

As of the reporting date there were avals of EUR 34.1 million (2012: EUR 52.0 million).

(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 2013, the Group disposed of forward exchange deals with a volume of kEUR 5,250 (2012: kEUR 5,250).

Phoenix Solar AG is therefore exposed to market value risks from certain foreign exchange derivatives. These are foreign exchange derivatives which serve to hedge underlying transactions and planning positions. 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 EUR had risen or fallen by ten percent against all currencies as of 31 December 2013, the other operating income or expenses and the fair value of hedging transactions would have been higher by kEUR 0 or lower by kEUR 0, respectively (31 December 2012: higher by kEUR 0 or lower by kEUR 0, respectively), i.e. unchanged. 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 programme, 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 had increased or decreased by 100 basis points compared to all interest rate hedging transactions as of 31 December 2013, the financial result and the fair value of hedging instruments would have been higher by kEUR 19 or lower by kEUR 4, respectively (31 December 2012: higher by kEUR 8 or lower by kEUR 6, respectively).

DEFAULT RISK

There is no significant concentration of default risks within the Group as the risks are distributed among a large number of counterparties and customers. 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 write-downs for tentatively uncollectible receivables; such write-downs have been estimated by the Group's Management on the basis of past experience values and the current economic environment.

The maximum default risk is reflected in the carrying amounts of the financial assets presented in the statement of financial position.

In order to prevent such default on receivables, the Phoenix Solar Group evaluates the credit ratings of the contractual partners. If a credit rating's deterioration is recognized, the contractual conditions are adjusted accordingly. Adequate measures in such cases constitute reducing the customer credit limit and obtaining advance payments or alternative securities such as guarantees or trust accounts.

Default risk is limited with respect to cash equivalents as such instruments are held at banks with high credit ratings.

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. Corporate Treasury compares the expected future cash flows with the rolling weekly forecast of the Group's liquidity situation. As a result financial risks can be detected early and measures taken with regard to financing and investment requirements (anticipatory liquidity risk control).

The financing available until 31 March 2015 in the total amount of kEUR 126,000 consisting of cash and guarantee facilities, includes a syndicated loan facility with a volume of kEUR 95,574.

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 TRANSACTIONS

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. To that end, a Conditional Capital of kEUR 552 was created.

By virtue of this authorization, 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, 253,850 of those stock options had expired due to resignations and 18,000 had been exercised. This leaves 68,500 stock options as of the reporting date. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company will not have been terminated by either party 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:

k€	SOP 2006 (2011)	SOP 2006 (2010)	SOP 2006 (2009)	SOP 2006 (2008)
Issue date:	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Valuation date	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Stock exchange price of the company's share at the valuation date:	19.52 €	28.70 €	36.40 €	43.46 €
Vesting period:	2 years	2 years	2 years	2 years
Stock option life (including vesting period):	7 years	7 years	7 years	7 years
Exercise price:	20.44 €	28.75 €	35.11 €	46.39 €
Risk-free interest rate:	2.11 %	0.87 %	2.95 %	4.04 %
Volatility:	57.75 %	63.82 %	64.83 %	61.35 %
Annual dividend per share:	0.30 €	0.20 €	0.25 €	0.20 €

Due date of dividends (assumption):	around 15 June of each year
No. of simulations conducted:	10,000,000 in each 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 Tranches 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 gained whereby 67 percent exercise 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 historical volatility from the movement in the share price 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 1 July 2008 to 9 May 2011 (Tranche V). The volatility expected is based on the average historical volatility.

The risk-free interest rate was determined by the Svensson method. On the basis of this method of calculation, the value of an option at the time of issue is calculated as EUR 10.177 (Tranche I), EUR 20.174 (Tranche II), EUR 17.972 (Tranche III) and the weighted value of an option as EUR 13.912 (Tranche IV) and EUR 8.323 (Tranche V).

The stock option position developed as follows in the financial year:

	Tranche V SOP 2006 (2011)	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Position 01/01/2012	9,500	101,400	63,000	41,000	9,000	223,900
stock options expired during the term in 2012	– 6,500	– 60,400	– 37,000	– 20,000	0	– 123,900
Position 31/12/2012 – 01/01/2013	**3,000**	**41,000**	**26,000**	**21,000**	**9,000**	**100,000**
stock options expired during the term in 2013	0	– 9,000	– 9,000	– 9,000	– 4,500	– 31,500
Position 31/12/2013	**3,000**	**32,000**	**17,000**	**12,000**	**4,500**	**68,500**

In 2013, as in the precious year, no options were excercised.

The company incurred no expenses from share-based compensation for the financial year 2013 (2012: kEUR 54).

Compensation is paid in full through the issue of equity instruments.

(41) IMPORTANT EVENTS AFTER THE REPORTING DATE

APPOINTMENT OF NEW MEMBER OF THE EXECUTIVE BOARD

In December 2013, the Supervisory Board appointed Olaf Laber to the Executive Board. He took up office on 1 January 2014 and has been responsible since then for New Business Models and Information Technologies as well as business in the regions of Germany, Europe and the Middle East.

INSOLVENCY FILING OF THE ITALIAN SUBSIDIARY

Owing to the particularly unfavourable economic and political framework conditions in Italy, the business of our local subsidiary increasingly lost momentum as the year 2013 progressed and, towards the turn of the year, came under increasing pressure. Against this backdrop, all facets of the situation and courses of action were carefully weighed up with the management of the subsidiary and finally, on 12 March 2014, insolvency proceedings were instituted. As a result, operating activities in Italy have ceased completely.

Assets and liabilities of the subsidiary are being accounted for at insolvency values in the Group financial statements.

This measure will not have any material impact on the Group's earnings, financial and assets position.

REGROUPING OF THE US SUBSIDIARY

In January 2014, the subsidiary in the USA was transferred to Phoenix Solar America GmbH, a newly founded intermediate holding company. Alongside structural aspects, this measure was aimed at leveraging valuation reserves, thereby strengthening the equity base of Phoenix Solar AG.

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, resigned from this position effective 28 February 2013)
- Dr. Bernd Köhler, Diplom-Volkswirt, Ubstadt-Weiher (Chief Financial Officer until 31 December 2014; responsible for finances; Chief Executive Officer as of 1 March 2013)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Chief Operating Officer until 30 June 2016; responsible for the regions in Asia and the USA)
- Olaf Laber, Dipl.-Informationswirt (FH), Dreieich, until 31 December 2016; responsible for new business models, information technologies, Europe and the Middle East (since 1 January 2014).

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 (resigned as of 28 February 2013).
- Dr. Bernd Köhler follows Dr. Andreas Hänel as Member of the Executive Board of Phoenix Solar Pte. Ltd, Singapore. Furthermore he is Chair of the Administrative Board of Phoenix Solar S.r.l. Rome, Italy.
- 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.

The compensation granted to the Executive Board in the financial year 2013 amounted to kEUR 1,187 (2012: kEUR 872).

This compensation was divided up as follows:

k€	Component unrelated to performance		Performance-related component		Component with a long-term incentive effect		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Dr. Andreas Hänel	343	218	0	36	0	0	343	254
Dr. Bernd Köhler	527	191	0	153	0	65	527	409
Dr. Murray Cameron	177	139	140	39	0	0	317	178
Ulrich Reidenbach*	0	25	0	6	0	0	0	31
Total	**1,047**	**573**	**140**	**234**	**0**	**65**	**1,187**	**872**

* resigned 31 December 2012

Compensation components that are not performance-related include a monthly base salary, the provision of a company car conforming to 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 at work but also covers liability in the private sphere.

The members of the Executive Board Dr. Hänel and Dr. Cameron, respectively, were awarded options in the amount of 35.000 units each under the Stock Option Plans. In the course of the financial year 2013 no options were exercised; in addition the options owned by Dr. Hänel expired due to his resignation.

As far as performance-related compensation is concerned, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals, has so far been applied. In order to ensure a suitable compensation system for the future, long-term incentives were taken into account to the extent that both an EBIT barrier and a bonus index system with multipliers developed by the Swiss research company Obermatt were put in place. However this system was no longer adequate against the background of major changes taking place in the entire solar industry, insolvencies among similar companies, and the comprehensive restructuring and realignment of Phoenix Solar and its administrative costs. The performance-related compensation was therefore changed to a flexible format with agreed targets which enable the Supervisory Board to agree or set targets tailored to the particular situation of the company and the areas of responsibility of individual board members, and to shape the variable remuneration as a function of achieving those targets. The basis for assessing targets always covers several years in order to reflect sustainable growth. However, the Supervisory Board may depart from this principle depending on the company's situation and for example select a one-year timeframe. Advantage was taken of this option in 2013 due to the special restructuring situation with the fundamental realignment of the company.

In the past financial year, in addition to the rigorous and successful implementation of the restructuring plan, the performance of the two regions, Asia and USA – for which Dr. Murray Cameron is responsible on the Executive Board – was of crucial significance for the success of the Group. On the basis of the new arrangements for variable remuneration, a target was agreed with Dr. Cameron which exactly reflected this significance. The targets agreed related to EBIT as well as the number of contracts obtained and in the pipeline in both regions or by the subsidiaries based in these regions.

A new contractual arrangement covering his activities for the company was agreed with Chief Executive Officer, Dr. Bernd Köhler, when Dr. Andreas Hänel left his post and when Dr. Köhler took over the function of Chief Executive Officer as of 1 March 2013, which took the form of a management services agreement. The contract no longer contains any additional benefits such as a company car, accident insurance, continued payment of remuneration in the event of death, contributions to company pension scheme or severance payment arrangements, and it offers a strong performance incentive by way of the relatively short termination option available to the company. The remuneration is based on a fixed and a basically variable daily rate. However, during the financial year 2013 the latter component was also fixed.

The components with a long-term incentive effect consisted of contributions to a defined contribution pension plan which were only paid in 2012.

(43) SUPERVISORY BOARD OF THE PARENT COMPANY

- Michael Fischl, Dipl.-Kfm., Abensberg (Chairman), Head of Internal Audit of Sparkasse Ingolstadt
- Thomas Zinser, Hohenschäftlarn, (Vice Chairman since 21 June 2012), 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, Managing Director of GOSFAM Investments GmbH, Forst (since 16 June 2010)

Mr. Gosemann is also Vice Chairman of the Supervisory Board of CPU Softwarehouse AG, Augsburg as well as Member of the Supervisory Board of Turbina Energy AG, Munich.

The total compensation of the Supervisory Board members in the financial year 2013 amounted to kEUR 124 (2012: kEUR 196) and is made up entirely of non-performance-related components.

This amount was divided up as follows:

k€	Component unrelated to performance		Total	
	2013	2012	2013	2012
J. Michael Fischl	52	63	52	63
Prof. Dr. Klaus Höfle*	0	18	0	18
Dr. Patrick Schweisthal*	0	23	0	23
Prof. Dr. Thomas Zinser	38	45	38	45
Oliver Gosemann	34	30	34	30
Dr. Torsten Hass*	0	17	0	17
Gesamt	**124**	**196**	**124**	**196**

* After the resolution adopted by the annual general meeting on 21 June 2012 regarding the reduction in size of the supervisory board, was registered, these gentlemen resigned their supervisory board mandates.

(44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The professional fee paid to the auditing firm in the financial year 2013 and recognised as an expense in 2013 was divided up as follows:

k€	2013	2012
a) Audit of financial statements	277	260
b) Other confirmations	0	42
c) Tax consultancy	7	0
d) Other services	14	56
Total	**298**	**359**

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

The Executive Board and the Supervisory Board have issued a declaration of conformity in accordance with Section 161 of the German Stock Corporations Act (AktG) regarding compliance with the German Corporate Governance Code and made it permanently available to the shareholders on the company's website (http://www.phoenixsolar-group.com under „Investor Relations" and then „Corporate Governance", „Declaration of Conformity").

The Declaration was last made and published on 26 March 2014.

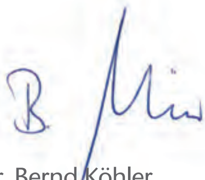
(46) AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

"To the best of our knowledge, we hereby affirm that the Group financial statements give a true and fair reflection of the results of operations, financial position and net assets of the Group in accordance with the applicable generally accepted accounting principles."

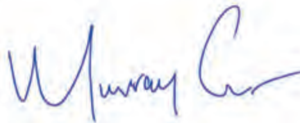
H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 26 March 2014

Phoenix Solar Aktiengesellschaft



Dr. Bernd Köhler
Dipl.-Volkswirt
Ubstadt-Weiher
(Chief Executive Officer)



Dr. Murray Cameron
Dipl.-Physiker
Garching
(Chief Operating Officer)

Olaf Laber
Dipl.-Informationswirt (FH)
Dreieich
(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 1 January 2013 to 31 December 2013. 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 Executive Board. 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 Executive Board, 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 8.7.1 "Financial Risks", subsection "Group Financing" of the Group Management Report. There it is explained that the Company's liquidity depends on the prolongation of the syndicated loan agreement beyond 31 March 2015, and that the bank syndicate in the event of a breach of covenants will not exercise its extraordinary termination right for the credit lines.

Munich, 26 March 2014

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer	ppa. Jürgen Schumann
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

ADDITIONAL INFORMATION

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PHOTOVOLTAIC GLOSSARY

• **Accumulator**
An accumulator stores electrical energy. In photovoltaic, accumulators are used for off-grid systems.

• **Alternating current**
Alternating current (AC) 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 module whose cells are made of glass or metal panels 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 have a distinctive brown colour.

• **Amortisation**
Energetic amortisation (also known as energy return time) is the time needed by a solar electricity system 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 cost of the mounting system, DC cabling, inverters, grid connection and installation.

• **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 multi-crystalline) 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 a lowering of the feed-in tariff oriented towards market growth. A sliding scale regulates the reduction: If the newly installed output within 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 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**
Efficiency generally denotes the relationship between usable and used energy. The efficiency of solar cells indicates the percentage of the sun's energy which is converted into electric charge.

• **EPC**
The acronym EPC (engineering, procurement and construction) is used in power plant construction to describe a form of project implementation customary in plant construction where the contractor assumes the role of general contractor. This price is guaranteed under the law over a longer period and must be paid by the grid operator to the producer of solar electricity.

• **Feed-in tariffs**
In a number of countries, the expansion of renewable energies is promoted through paying the system operator a fixed price for the solar electricity produced. This price is guaranteed under the law over a longer period and must be paid by the grid operator to the producer of solar electricity.

• **German Renewable Energies Act (EEG)**
The German Renewable Energies Act (EEG) entered into force on 1 April 2000. Its objective is to promote the expansion of energy produced from renewable sources. Among other things, it regulates the feeding in of renewable energies into the power grid and its remuneration. The amendment currently under discussion provides for further constraints on feed-in remuneration and levies on solar electricity produced and consumed by private households.

• **Grid-connected systems**
Grid-connected systems are solar power plants which have been connected up to the power grid 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 therefore not a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

• **Ingot**
Ingot is a term used to describe a block of semiconductor material, such as silicon. The structure of ingots can be monocrystalline or polycrystalline.

• **Inverters**
Inverters convert the direct current generated by the solar cells into alternating currents which is compatible with the grid. They are an integral component of solar power plants.

• **Kilowatt (kW)**
Kilowatt (kW) is the general unit of measurement for output. The electrical output of a solar power plant is also given in kilowatts.

• Kilowatt hour (kWh)
The kilowatt hour (kWh) is a unit of measurement for energy used or generated. One kilowatt hour equals a kilowatt over the period of an hour. The kilowatt hour is the unit of energy commonly used for the measurement of household electricity consumption. One kilowatt hour is sufficient to light a 100 watt bulb for ten hours.

• Megawatt (MW)
A megawatt is a unit of measurement for output, and is equivalent to one million (10^6 W).

• 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 silicon layer. Micromorphous modules are therefore more efficient than amorphous modules.

• Monocrystalline cells
The basic material for monocrystalline cells is ultra-pure silicon which is extracted from silicon smelt and manufactured 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 they are also more expensive to manufacture. They can be recognised by their characteristic graphite colour.

• Net metering
Term used for a model regulating the remuneration of electricity from photovoltaic facilities (<100kWp). The solar electricity produced is fed into the grid via a bidirectional meter and offset against electricity procured.

• Nominal output
The nominal output (also known as peak output) is an indication of the output of a solar module or a solar plant, for instance.

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

• 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).

• Photovoltaic
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 electrical direct current.

• Polycristalline cells
The basic material for polycrystalline (also known as multi-crystalline) cells is ultra-pure silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into thin 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 blueish colour.

• Power Purchase Agreement
A power purchase agreement (also known as a power delivery agreement) regulates business relations between the power supplier and the consumer. Instead of feeding electricity into the grid against remuneration, operators of solar power plants can sell electricity to customers, including companies or whole industrial zones which can considerably lower their energy costs in this way.

• Renewable energies
Renewable energies (also known as regenerative energies) come from a source which either renews itself in the short term or where its use does not contribute to exhausting the respective resource. This includes solar irradiation, hydropower, geothermal energy 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 photovoltaic has recorded high growth rates in renewable energies in recent years.

• Self-consumption
Alongside feeding into the public grid, electricity generated by a photovoltaic system can be used for personal consumption. The lower the feed-in tariff and the greater the cost advantage of generating solar electricity compared with using conventional energy, the more attractive self-consumption becomes.

• Solar modules
A solar module is made up of the number of solar cells which are electrically connected in 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 market 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 state (solar grade).

• **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 semi-conducting 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.

• **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 °C and a solar irradiation angle of 45°.

• **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, and over etc.). Financing costs, costs of official approvals, 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 extent 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 sites.

• **Temperature coefficient**
The temperature coefficient is an indication of the degree to which module output changes if the temperature of the solar cell rises.

• **Turnkey power plant**
In photovoltaic, a turnkey power plant is a fully configured solar power plant consisting of solar modules, a mounting 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, for instance) or a service (such as system integration or operation), comprising all links in the chain, in other words from the suppliers of raw materials and manufacturers, across system integrators, 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 photovoltaic, they are the primary product used in crystalline solar cells.

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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 ars 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 photovoltaic, 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

8 May 2014	Report/Interim Figures as per 31 March 2014
28 May 2014	Ordinary Annual General Meeting of Shareholders 2014
7 August 2014	Report/Interim Figures as per 30 June 2014
6 November 2014	Report/Interim Figures as per 30 September 2014

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

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