phoenix SOLAR

ANNUAL REPORT 2015

27,4 MWp photovoltaic power plant in Hazlehurst, Georgia, USA, 2015 built by order of Silicon Ranch Corporation

PHOENIX SOLAR AT A GLANCE

Financial Figures

Revenues and results		01/01/2015 – 12/31/2015	01/01/2014 – 12/31/2014	Change
Shipments	MWp	98.7	28.9	241.5 %
Revenues (Consolidated)	k€	119,407	33,783	253.5 %
Gross margin in % of revenues (Gross margin)	k€	8.4	17.0	– 8.6 PP
EBIT (Consolidated)	k€	– 1,579	– 4,616	+ 65.8 %
– In % of revenues (EBIT margin)	k€	– 1.3	– 13.7	+ 12.4 PP
Consolidated net income for the period	k€	– 5,629	– 10,167	+ 44.6 %
		12/31/2015	**12/31/2014**	
Orders on hand[1]	k€	299,154	46,233	547.1 %
Free order backlog[1]	k€	195,675	36,301	439.0 %
Balance sheet[1]			**2014**	
Total assets	k€	53,444	45,240	18.1 %
Equity	k€	– 7,553	– 1,583	377.1 %
Equity ratio	%	– 14.1	– 3.5	– 10.6 PP
Return on equity	%	– 74.5	– 642.3	+ 567.6 PP
Phoenix SonnenAktie®[1]		**2015**	**2014**	
No-par bearer shares	Units	7,372,700	7.372.700	0.0 %
Closing price	€	4.30	1.55	177.2 %
Market capitalisation	k€	31,695	11.435	177.2 %
Earnings per share		**2015**	**2014**	
Basic	€	– 0.71	– 1.38	+ 48.6 %
Diluted	€	– 0.71	– 1.38	+ 48.6 %
Employees				
Employees[2]	Heads	79	96	– 17.7 %
Employees[3]	FTE	85	110	– 22.7 %
Revenues per FTE[3]	k€	1,405	307	357.6 %

[1] At the end of the period (balance sheet data as 12/31/)

[2] Number of employees as of 12/31/ including part-time and temporary staff

[3] Full-time equivalent, average of the period 01/01/-12/31/

– Eventual rounding differences in the tables are due to arithmetic reasons. –

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TO OUR SHAREHOLDERS

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LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

We are very pleased to be able to present you the figures from our 2015 financial year, which show very strong growth and confirm our stated goal, namely a solid turnaround of Phoenix Solar AG's business.

Twelve months ago the optimistic view I shared with you in my letter met perhaps with some scepticism. Some observers may have thought this was justified after a modest downward adjustment in our forecast last September. But in retrospect, events have shown that fluctuations in order intake or delays in obtaining a final project start from customers are the norm in the project business.

We have indeed been able to consolidate our business in an impressive way. As a global provider of turnkey services for the design, procurement and construction of quality solar photovoltaic power plants, we were able to demonstrate to our customers and the market as a whole our ability to deliver quality utility-scale and commercial solar generators on-time and on-budget. Based on our in-depth knowledge and the experience of having successfully designed and built some 800 MWp of power plants worldwide, our services were highly appreciated by customers such as Duke Energy, the largest electric utility in the US, for whom we executed a 39.6 MWp photovoltaic power plant in 2015. Our reputation precedes us, demand remains strong for differentiated EPC providers such as Phoenix Solar.

Our positioning, "Excellence in Global PV Solutions", is what drives us, and we continue to work hard to maintain and further build our competitive advantage. The 2015 results demonstrate that our systematic approach to the global sales process and strong focus on profitable growth via our sales teams around the globe have indeed begun to bear fruit.

Please allow me to mention a few highlights. Phoenix Solar's revenues more than tripled in 2015, we were cash positive, showed positive EBIT for three quarters in a row and the fourth quarter resulted in a net profit, the first positive bottom line result in many years. Accompanied by a free order backlog of almost EUR 200 million at year end – the highest in our company's history – as well as a weighted project pipeline of some 300 MWp have indeed put considerable wind in to our sails and confirm our direction.

Yet solar markets are dynamic, we can never rest on our laurels. A number of challenges lie ahead but we are confident we will master these too. We have ambitious plans for the future.

For 2016, we anticipate revenue growth of at least 50 percent to a range of between EUR 180 and EUR 210 million, and an EBIT of some EUR 2.0 to EUR 4.0 million. These targets have found the wholehearted support of our lending banks, which in March agreed to extend our finance package by another full 2.5 years through September 30, 2018.

And as you know, we are making solid progress in executing the Six Point Plan that I laid out at our Annual General Meeting last June. Among the key objectives which we outlined then was a reduction of our total system cost per MWp by 6 to 8 percent annually. We have hired a new Vice President of Global Supply Chain, an experienced industry expert, to help drive this effort forward. It will include preferred global suppliers and a cost road map to achieve the cost efficiencies we are looking for. We have started on the journey towards a Process Organization, with global standards, common measures and a regular exchange of best practice. First steps towards strengthening our worldwide management team are being taken in the context of Organization Development. A strategy project has helped us to clearly identify new markets for potential geographic expansion in our three core trading areas, the U.S., Middle East and Asia/Pacific.

At the point, the Executive Board must slowly shift from turnaround mode to focus on building the foundation for strong growth in the coming years. Needless to say, the initiatives laid out above will play a major role here. We will carefully adapt our organization to meet the challenges of a growing business and be certain to identify, hire and develop the experienced industry professionals required to grow. Fixed costs will be kept to a minimum and variable costs employed wherever possible to maintain a lean and agile organization.

Growth via acquiring profitable projects remains at the very top of our agenda. While the initial focus of our sales offensive was clearly on the U.S. market, we are now taking some of these best practice processes and rolling them out to our subsidiaries around the globe. We will thus ensure our ability to achieve sustained, profitable growth in our project pipeline around the world.

Along with these core initiatives, my colleagues on the Executive Board, Manfred Hochleitner and Murray Cameron, and I have started to identify new strategic opportunities for Phoenix Solar. As indicated during the last Annual General Meeting, these will include the move into new regional markets and a careful analysis of the cost/benefit associated with entering new segments of the photovoltaic value chain. We are confident that in due course we will have some good news to share with you about progress in this direction.

Before ending my letter, I wish to take a quick look at the international market environment. At the end of 2015, we witnessed several events which underscored our very optimistic assessment of the global photovoltaic market. Worldwide, the market grew from 42 GWp (gigawatt peak) in 2014 to an estimated 55 GWp in 2015, a solid performance representing total investment of over USD 100 billion. Furthermore, the U.S. Congress passed a bill which includes a seven year extension of the Investment Tax Credit in favor of investments in solar photovoltaic power generation – a key advantage in our largest market, where we are well prepared to profit from solar growth for several years to come. Finally, to underscore the above, in December, the Paris Global Climate Summit reached an agreement to limit CO_2 emissions worldwide and thus limit global warming.

As solar prices have come down rapidly, government support for our technology will become less and less important. Solar has already achieved grid parity in many markets around the world, meaning it is competitive with fossil fuels without any subsidies at all. Plant owners and investors globally are well aware of this and continue to invest in commercial solar at a rapid pace, as mentioned above. Our future looks bright – demand for differentiated quality EPC services, such as those we offer at Phoenix Solar, remains strong.

We thank you for your continued loyalty to the company and look forward to presenting further good news in the coming year.

With best regards,

Tim P. Ryan
(Chief Executive Officer)

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EXECUTIVE BORD OF PHOENIX SOLAR AG

TIM P. RYAN
Chief Executive Officer
since January 1, 2015

Responsible for:
- Strategy and Business Development
- USA, Asia/Pacific, Middle East
- Corporate Communication

MANFRED HOCHLEITNER
Chief Financial Officer
since January 1, 2015

Responsible for:
- Finance and Administration
- Internal Audit, Legal and Compliance
- Europe
- Investor Relations

DR. MURRAY CAMERON
Co-founder of Phoenix Solar and
Member of the Executive Board
since 2003

Responsible for:
- Business Support International

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board hereby submits its report to the Annual General Meeting of shareholders, particularly on its supervision of the management during the year under review, on its audit of the company's financial statements and the management report prepared as of December 31, 2015, pursuant to the provisions of the German Commercial Code (HGB), as well as on the consolidated financial statements and Group management report, and on its opinion on the auditor's report.

BACKGROUND INFORMATION

In the year under review, the Supervisory Board held five regular meetings, including two closed-door sessions. In doing so, it fulfilled the tasks incumbent upon it according to the law, the articles of incorporation, and its rules of business procedure. Owing to the company's situation, the Supervisory Board kept itself abreast of the development of ongoing restructuring and related measures by way of twelve telephone meetings. If required, resolutions were also passed in these meetings. In exceptional cases, voting was made by way of circulation procedure. All Supervisory Board members participated at all meetings.

Since June 28, 2013, and until the end of the AGM on June 23, 2015, the Supervisory Board consisted of the three following members: J, Michael Fischl (Chairman), Prof. Thomas Zinser (Deputy Chairman) and Oliver Gosemann. The periods of office of Supervisory Board members J. Michael Fischl and Prof. Thomas Zinser ended with the AGM. Mr. Fischl stated that he would not stand again as a candidate for a Supervisory Board mandate. The Supervisory Board extends to Mr. Fischl its particular thanks for his many years of work on the Supervisory Board, including as Supervisory Board Chairman. He played a significant role in ensuring that the company emerged successfully from the crisis and restructuring.

The AGM appointed Prof. Thomas Zinser for a further year of office until the end of the AGM that approves the discharge of the directors for the 2015 financial year. The AGM also appointed Mr. Hans-Gerd Füchtenkort as a new Supervisory Board member for a two-year period of office until the end of the AGM that approves the directors' discharge for the 2016 financial year.

In its constitutive meeting on June 23, 2015 the Supervisory Board elected Mr. Oliver Gosemann as its new Chairman.

The Supervisory Board has consisted of the following three members since June 23, 2015, as a consequence: Oliver Gosemann (Chairman), Prof. Thomas Zinser (Deputy Chairman) and Michael Fischl. The requirements in terms of independent financial experts in the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) (financial expert) were, and are, fulfilled by Prof. Thomas Zinser, whose main professional occupation is as a tax adviser.

No committees were formed.

Pursuant to the resolution of the AGM of June 23, 2015, the Supervisory Board Chairman on January 15, 2016 mandated PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, pursuant to Section 111 (2) Clause 3 of the German Stock Corporation Act (AktG), to audit the separate annual financial statements, the management report, and the consolidated financial statements and Group management report that are prepared pursuant to Section 315a of the German Commercial Code (HGB) on the basis of IFRS / IAS. On May 5, 2016, the external auditor submitted an auditor's independence declaration to the Supervisory Board Chairman in accordance with section 7.2.1 of the German Corporate Governance Code. The Supervisory Board is not in doubt concerning the correctness of this statement.

On March 24, 2016, the Supervisory Board consulted with the Executive Board concerning the corporate governance report pursuant to the regulations of the German Corporate Governance Code in its version dated June 24, 2014 (published in the Federal Gazette/Bundesanzeiger of September 30, 2014) and in the version dated May 5, 2015 (published in the Federal Gazette of June 12, 2015), and coordinated concerning the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of conformity was published pursuant to statutory regulations. The complete corporate governance report, including the declaration of conformity, forms part of the annual report.

The Supervisory Board reviews the efficiency of its work annually as part of its closed-door session. Suggestions for improvement are also submitted at each meeting. The key areas of this efficiency review comprise the structuring and organization of the meetings, the optimizing of reporting by the Executive Board, and the passing of resolutions on agenda items, as well as the presentation of the company's financial position and performance, and the subsidiaries' positions. The Supervisory Board members participated in external further training measures over the course of the year to further optimize specialist qualifications. This particularly entailed more in-depth examination of topics preparing for the AGM and questions concerning statutory amendments to the German Stock Corporation Act (AktG).

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

The Supervisory Board held regular meetings, consulted intensively on the items on the agenda, and actively analyzed the development of the company and the situation in the sector. The Supervisory Board frequently consulted with the Executive Board about the management of the company, and supervised its activities. The supervision of the company's management is conducted primarily through regular written and verbal reports by the Executive Board, and discussion of these reports. The Executive Board reported promptly on the course of business, strategic development, and the current situation of the company and the Group. In addition to the Supervisory Board meetings, the Supervisory Board Chairman maintained constant contact with the Chief Executive Officer and CFO, and had himself be informed of the current status of business, specific business transactions, and, in particular, the situation of the major subsidiaries.

Furthermore, the Supervisory Board kept itself informed through regular telephone conferences with the Executive Board of the development of the company's financing, and discussions with the financing consortium.

The Supervisory Board was thereby rapidly involved in all decisions of key significance for the company and the Group.

Supervisory and advisory activity in the period of this report focused on the following issues:

- The strategic realignment of Phoenix Solar AG
- Analysis of alternative and supplementary business areas to expand the business model in the interests of further corporate growth
- Gaging the consequences for the company's business policy of political debate about supportive measures in all key regions
- Strategic concept for the company's refinancing
- Discussion of and preparation for further steps in the event of a lack of success in the planned refinancing
- Building up of the sales organization in the existing core markets, particularly in the USA
- Reorganization of the subsidiary in Singapore, and founding of a subsidiary in the Philippines
- Further business development in the regions
- Allocation of responsibilities at Executive Board level
- Rules of business procedure for the Executive Board
- Group business planning
- The intake of large-scale projects
- Review and discussion of significant contractual problems and projects
- Matters affecting taxation, particularly at subsidiaries
- Receipt and discussion of the Executive Board reports pursuant to Section 90 of the German Stock Corporation Act (AktG) on the liquidity and financial positions, intended business policy 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 (2) of the German Stock Corporation Act [AktG]), and information obtained on this basis
- Receipt and discussion of compliance reports
- Receipt and discussion of reports submitted by the internal audit function
- Consultation concerning the content of the German Corporate Governance Code

The Supervisory Board agreed to the Executive Board's proposed resolutions following extensive review and discussion. In the case of measures subject to approval by the Supervisory Board, the main topics comprised:

- Allocation of responsibilities at Executive Board level
- Rules of business procedure for the Executive Board
- Group business planning
- Reorganization of the subsidiary in Singapore
- Founding of Phoenix Solar Overseas GmbH
- Building up of the sales organization in the existing core markets, particularly in the USA
- The intake of large-scale projects
- The strategic realignment of Phoenix Solar AG
- Strategic concept for the company's refinancing
- Clarification of tax questions for European subsidiaries

No conflicts of interest arose with regard to the members of the Executive and Supervisory boards which must be reported without delay to the Supervisory Board, and about which the Annual General Meeting should be informed.

CHANGES AT EXECUTIVE BOARD LEVEL

The following changes occurred at Executive Board level during the period under review:

The Chief Executive Officer and Chief Financial Officer, Dr. Bernd Köhler, left the company effective December 31, 2015, on the expiry of his contract.

With effect as of January 1, 2015, Mr. Timothy P. Ryan was appointed Chief Executive Officer, and Mr. Manfred Hochleitner was appointed Chief Financial Officer. Mr. Olaf Laber resigned his Executive Board mandate with effect as of January 31, 2015.

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

The Supervisory Board members received the following in good time ahead of the meeting it held to approve the financial statements:

- the separate annual financial statements for the 2015 financial year,
- the management report by the Executive Board on the company's position in 2015,
- the 2015 consolidated financial statements prepared in accordance with IFRS/IAS standards,
- the Group management report by the Executive Board on the Group's position 2015.

PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft audited the separate financial statements and separate management report, as well as the consolidated financial statements and Group management report. The audits resulted in no objections; unqualified audit opinions were issued.

At its financial accounts meeting on March 24, 2016 – which was also attended by the Executive Board, who commented on the financial statements that they had prepared, as well as the risk management system – the Supervisory Board examined the separate annual financial statements and management reports, and conducted an intensive and in-depth discussion with the auditor who was also present and reported on the significant results of its audit, as well as its focal points and scope, and was available to provide additional information. No major weaknesses in the internal control and risk management system relating to the accounting process were identified.

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

- all elements of financial accounting, to the extent that the separate annual financial statements are based on it, are systematically correct,
- the processes for achieving a complete, accurate, timely and proper collecting, processing and recording of accounting data are correctly organized,
- the system of documentation is well organized, and each individual transaction can be traced to its presentation in the annual financial statements and vice versa,
- random sample testing of the underlying documentation shows that it is in accordance with the reported accounting entries,
- the contract register utilized for the assessment of pending transactions and the notes to the financial statements convey no impression of a lack of clarity or completeness,
- the statutory provisions on recognition, reporting and measurement were complied with, and the separate financial statements give a true and fair view of the company's financial position and performance.

The Supervisory Board declared its agreement with the findings of the audit conducted by the independent auditor. Following the conclusive result of its review, the Supervisory Board ascertained that no objections were to be raised.

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

In its meeting on March 24, 2016, following consultation with the independent auditor pursuant to Section 171 (2) of the German Stock Corporation Act (AktG), the Supervisory Board issued the following statement on the independent auditor's report:

"Based on its own review, the Supervisory Board concurs with the results of the audit of the separate annual financial state-ments and the 2015 management report, as well as the consolidated financial statements and 2015 Group management report, by the independent auditor who has issued unqualified audit opinions. No objections were raised following the final result of the review by the Supervisory Board. Accordingly, the separate annual financial statements as at December 31, 2015 are ratified by the Supervisory Board in its meeting on March 24, 2015, and thereby adopted. Moreover, the Supervisory Board also ratifies the consolidated financial statements as at December 31, 2015."

Sulzemoos, March 24, 2016

Oliver Gosemann
(Supervisory Board Chairman)

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CORPORATE GOVERNANCE REPORT
AND STATEMENT ON CORPORATE MANAGEMENT

The principles of responsible and sustainable corporate management determine the activities of both the executive and controlling bodies of Phoenix Solar AG. In this statement, the Executive Board – also for the Supervisory Board – reports on corporate governance pursuant to Section 3.10 of the German Corporate Governance Code, and on the management of the company pursuant to Section 289a (1) of the German Commercial Code (HGB).

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

During the year under review, the Executive and Supervisory boards of Phoenix Solar AG consulted concerning the recommendations and suggestions of the "Government Commission German Corporate Governance Code" (DCGK) in the version dated June 24, 2015 (published in the German Federal Gazette [Bundesanzeiger] on September 30, 2014), and in the version dated May 5, 2015 (published in the German Federal Gazette [Bundesanzeiger] on June 12, 2015). They jointly issued an updated statement of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) on March 24, 2016.

The recommendations and main suggestions have been implemented with only a few exceptions. Departures from the recommendations are described and justified in the declaration of conformity. All declarations of conformity that have been submitted to date have been made available permanently on the website of Phoenix Solar AG.

DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As an internationally operating company, Phoenix Solar is devoting greater attention to the issue of diversity. We regard diversity and equal opportunity as fundamental principles in our working environment. As of December 31, 2015, staff from 13 different countries were employed within the corporate Group of Phoenix Solar AG. Of the total workforce numbering 80 employees (status as of December 31, 2015, excluding Executive Board members, trainees and temporary staff), 31.2 percent were women. The proportion of women holding first management level positions below Executive Board level stood at 36.4 percent as of the year-end (December 31, 2014: 39.1 percent).

On February 18, 2016, the Executive Board passed a resolution to set targets for the proportion of women at both management levels below Executive Board level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG). This resolution contains the following:

a) The first management level below Executive Board level comprises the staff of Phoenix Solar AG who, as heads/managing directors of companies within the scope of consolidation bear responsibility for a region or a business area and/or responsibility for personnel, as well as staff at Group headquarters who, as a result of their area of senior responsibility, perform management tasks and/or bear responsibility for personnel. The first management level currently consists of 11 members of staff, four of whom are women (corresponding to a 36.4 percent proportion).
b) The Executive Board determines that a second management level below Executive Board level cannot be defined meaningfully due to the low number of staff and flat organizational structure.
c) The company's Executive Board sets the target for the proportion of women at the company's first management level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG) at a level of at least 30 percent, and requires this target to be met by June 30, 2017.

SUPERVISORY BOARD SIZE

The Supervisory Board of Phoenix Solar AG comprises a total of three members elected by the AGM.

SUPERVISORY BOARD EXPERTISE

The Supervisory Board holds regular closed-door sessions to analyze specialist and personal prerequisites to fulfill its tasks based on an extensive review of the prevailing situation. 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 individuals, and for succession planning.

The varied responsibilities and tasks of the Supervisory Board (finance, law, marketing and expertise regarding photovoltaics, management of international companies, corporate and project financing, personnel management, for example) are to a large extent represented by its individual members' focus expertise areas. Interpersonal skills are also to be taken into consideration in the selection of members, alongside professional expertise.

SUPERVISORY BOARD COMPOSITION TARGETS

Given the special challenges faced in the operating activities of Phoenix Solar AG, its full orientation to international business, and the size of both the parent company and the Group, the Supervisory Board has passed the following resolution relating to its future intended composition (resolution of February 16, 2014):

- The company will endeavor to ensure that at least one Supervisory Board member embodies the criterion of internationality to a particular extent, either through being a foreign national and/or through having significant international experience.
- Moreover, the Supervisory Board members 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 are to be applied to potential candidates irrespective of their gender and, in the case of equal qualifications and experience, women will be given preference.
- The forming of committees has been dispensed with in light of the small number of Supervisory Board members, and the already fast decision-making channels in place.
- The age limit for members of the Supervisory Board is 67.

With Oliver Gosemann and Hans-Gerd Füchtenkort, the Supervisory Board includes two members with extensive international business experience. Consequently, the criterion of internationality has been met. The Supervisory Board is currently comprised exclusively of independent members. None of these members maintains 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. The targets corresponding to the resolution dated February 16, 2014 are already met at present.

The Supervisory Board currently includes no female members.

By way of adding to and expanding the resolution dated February 16, 2014, on February 18, 2016 the Supervisory Board passed a resolution relating to setting targets for the proportion of women on the Executive and Supervisory boards pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).

a) For the Executive Board, a target of 0 percent is set for the proportion of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).
b) For the Supervisory Board, a target of 0 percent is set for the proportion of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).

These targets for the Executive and Supervisory boards are valid until June 30, 2017.

Along with the requirements posed by the company's situation and specialist matters, in future election proposals the Supervisory Board will nevertheless also take into account that the targets that have been set in relation to the Supervisory Board's composition are taken into consideration with regard to female Supervisory Board members.

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Business activity is not only connected with risks, but also with missed opportunities. For this reason, it is our responsibility to optimize the exploitation of opportunities for the company, while keeping risks to a minimum. Phoenix Solar AG has consequently installed risk management as a permanent process spanning all areas of the company to identify, assess, manage and control risks that arise. 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 covered. The goals, processes and distribution of tasks in the risk management system are documented in the company's risk management manual.

Phoenix Solar AG has a clear management and organizational structure, within which key functions across all areas of the company are managed centrally. As far as corporate finance and financial reporting are concerned, integrity and responsibility are inherent in complying with the accounting guidelines that are in place, and other guidelines 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, business transactions are properly recorded and accounted for, and transferred to the accounting system correctly. Suitable staffing, the application 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 and Supervisory boards in shares of Phoenix Solar AG in the meaning of Section 15a (directors' dealings) of the German Securities Trading Act (WpHG) can be viewed in the company register. These notifications are also posted on the company's website at http://www.phoenixsolar-group.com/en.html under "Investor Relations", "Corporate Governance" and then "Directors' Dealings", and are updated and made accessible for a one-month period.

In the 2015 financial year, a number of individual transactions that require reporting pursuant to Section 15a of the German Securities Trading Act (WpHG) were executed and reported by one Supervisory Board member and by the Chief Executive Officer. Not reportable pursuant to Section 15a of the German Securities Trading Act (WpHG) are the purchase or sale of the shares of Phoenix Solar AG if the sum total of transactions performed by an individual member of the Executive or Supervisory boards, or an individual related to them, does not reach or exceed an amount of EUR 5,000.

As of December 31, 2015, the Executive Board members held a total of 72,885 shares, or 0.99 percent of the votes (December 31, 2014: 69,750 shares or 0.95 percent). The Supervisory Board members held a total of 20,000 shares, or 0.27 percent of the shares (December 31, 2014: 9,100 shares, or 0.12 percent).

Both boards' members together hold shares equivalent to a 1.26 percent interest in the company (December 31, 2014: 1.07 percent).

COMPENSATION REPORT

The details of the compensation schemes for the Executive and Supervisory boards, as well as itemized remuneration, are included under section 12 in the management report in the separate and consolidated financial statements.

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 corporate governance statement in its management report, which appears within 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 primarily by the German Stock Corporation Act (AktG) and other statutory provisions under German commercial and company law.

The Executive and Supervisory boards have also adopted the recommendations of the "German Corporate Governance Code Government Commission", if no departure from the Code is 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.dcgk.de/de/kodex/aktuelle-fassung/praeambel.html.

EXECUTIVE AND SUPERVISORY BOARDS' WORKING METHODOLOGY AND COMPOSITION AND WORKING METHODOLOGY OF THEIR COMMITTEES

The Executive and Supervisory boards constitute the dual board system for the management and supervision of Phoenix Solar AG. The two boards work closely together to ensure that opportunities and risks are managed responsibly with the aim of achieving sustainable growth in the company's value. The two functions of "management" and "supervision" are separated clearly in this context.

The Executive Board members manage the company at their own responsibility, and perform their tasks on the basis of cooperation and a team approach. Rules of business procedure form the basis for their collaboration. The Executive Board develops the corporate strategy, and decides on measures for its implementation at operational level. A clear allocation of tasks, which accords with the schedule of responsibilities, determines the individual Executive Board members' areas of competence. The entire Executive Board decides on all significant measures.

The Executive Board members keep each other informed, and report to each other on such measures. The Chief Executive Officer coordinates the Executive Board's areas of responsibility, and compliance with reporting duties, and is to be informed by the other Executive Board members about all matters of importance.

As a rule, the Executive Board passes resolutions at meetings that the Chief Executive Officer convenes and chairs. Any member of the Executive Board may request that resolutions also be passed outside meetings in accordance with the rules of business procedure. The Executive Board is quorate when all members have been invited and at least half of the members are present. The Executive Board passes resolutions 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 and extensively within an appropriate timeframe about all issues relating to strategy, planning, business trends, the risk position, risk management, and compliance with laws and defined codes of conduct. The Supervisory Board is informed immediately in the event of important occurrences that could exert a major impact on the company. Significant measures require approval by the Supervisory Board in accordance with the details set out in the rules of business procedure.

The Executive Board is responsible for ensuring that statutory regulations and inhouse guidelines are complied with by Group companies. To this end, as well as with a view to observing and disseminating high ethical standards at Phoenix Solar, a standard compliance organization that is binding on the entire Group is in force. The compliance organization reflects the Group's current positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It has been approved by the Executive Board and managers, and communicated to staff.

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 rules of business procedure as the basis for collaboration. The Supervisory Board coordinates the strategy developed by the Executive Board, and is informed about the status of strategy implementation, the financial and investment planning for the next financial year, and medium-term planning. Outside the regular meetings, the Supervisory Board Chair engages in ongoing dialog with the Chief Executive Officer on issues of strategy, business trends and development, the risk position, risk management and compliance.

The Supervisory Board convenes at least once every calendar quarter. The Supervisory Board meetings are convened and led by its Chair or, in the Chair's absence, the Deputy Chair in accordance with the rules of business procedure. If an agenda item has not been properly announced, it may be put to resolution only if no Supervisory Board member objects before voting. Supervisory Board resolutions are generally passed at meetings, and, in accordance with the rules of business procedure, also outside meetings. The Supervisory Board is quorate if at least three members participate in the passing of resolutions, and it adopts resolutions by a simple majority.

The Supervisory Board has formed no committees, as this is not expedient given the fact that the Supervisory Board consists of only three members. A Supervisory Board consisting of three members can also fulfill its tasks efficiently and effectively without forming committees.

JOINT DECLARATION OF CONFORMITY OF MARCH 24, 2016

The Executive and Supervisory boards of Phoenix Solar AG declare that, since the last declaration of conformity on March 25, 2015, the recommendations of the "German Corporate Governance Code Government Commission" – in each case with the following exception – in the version dates June 24, 2014 (published in the German Federal Gazette [Bundesanzeiger] on September 30, 2014) have been complied with, and will continue to be complied with in the future, in the version dated May 5, 2015 (published in the German Federal Gazette [Bundesanzeiger] on June 12, 2015):

IN THE VARIABLE COMPENSATION COMPONENTS, RETROACTIVE MODIFICATION OF PERFORMANCE TARGETS OR COMPARISON PARAMETERS SHALL BE EXCLUDED. (pursuant to section 4.2.3 of the Code)

In a market environment that is subject to dynamic developments, the Executive and Supervisory boards are of the opinion that, in justified cases, it can be reasonable to retroactively adjust performance targets for comparison parameters for variable compensation components.

Sulzemoos, March 24, 2016
Phoenix Solar Aktiengesellschaft

For the Executive Board
Tim P. Ryan
(Chief Executive Officer)

For the Supervisory Board
Oliver Gosemann
(Supervisory Board Chairman)

PHOENIX SONNENAKTIE®

STOCK MARKET ENVIRONMENT

Increasing nervousness on capital markets had already characterized 2015. Although the German and key international indices reached new record levels during the year, doubts emerged among many market participants as to whether some of the high value increases on equity markets were genuinely justified by the general political, economic and monetary policy conditions. This was reflected in rising volatility.

During the third quarter of 2015, for example, prices on the major German indices declined further, a trend bolstered by the uncertain world political situation, the Fed's hesitant approach to monetary policy, concerns about the impact of China's growth slowdown on the global economy, and especially the revelations at Volkswagen AG.

Considering the year as a whole, the German indices nevertheless reported a considerably positive trend. TecDAX companies boosted their accumulated market value by one third from 1,370 to 1,830 points, while the SDAX index climbed by one quarter from 7,199 to 9,099 points. The MDAX index improved by 22.6 percent, from 16,997 to 20,775 points, and the DAX, which was particularly impacted by share price declines of some heavyweights including VW, Deutsche Bank and utilities, still managed an increase of some 9 percent, from 9,869 to 10,743 points.

The Photovoltaic Global 30 sector index registered stronger gains, although it traded below 20 points, twice during the course the year, a weak level last touched in early 2013. The gain of around 13 percent, from 23.1 to 26.1, does not reflect the actual potentials the solar sector offers overall. This situation may reflect the fact that some manufacturers included in the index have still not secured their financial and business positions.

Stock markets worldwide plunged after the New Year, for which highly varied reasons were cited – from the low oil price to the weak dollar, and from stress in the banking system through to weaker economic data. The surprisingly sharp downturn gained additional momentum by the triggering of widespread stoploss orders that induced a downward spiral lasting for several days. The markets failed to recover until February.

SHARE PRICE PERFORMANCE

Starting from a 2014 year-end price of EUR 1.55, the Phoenix SonnenAktie® (stock of Phoenix Solar) gained around 38 percent in the first three months of the current year, thereby outperforming the TecDAX as the benchmark index, as well as the other German indices.

The second quarter saw the Phoenix SonnenAktie® initially gaining significant ground. Due, among other reasons, to a new, larger shareholder buying into the company, the stock price briefly doubled, rising to EUR 4.17 on April 16, after which it dropped slightly again, closing at EUR 3.44 on June 30, 2015.

In the third quarter our stock benefited initially from positive sector news. It was additionally boosted by presumably speculative buying through to August 5, 2015, the day before the half-yearly results were released, with the trading volume rising to the new high reported for the year of EUR 5.84. Massive profit taking the day after trimmed a good 20 percent of its value, with this trend persisting, accompanied by lower turnover. The ad-hoc announcement on September 18, 2015, with the profit expectations for 2015 revised downward, also had an impact on the downtrend, bringing the stock price to its lowest level for the quarter of EUR 2.63 on September 28, 2015.

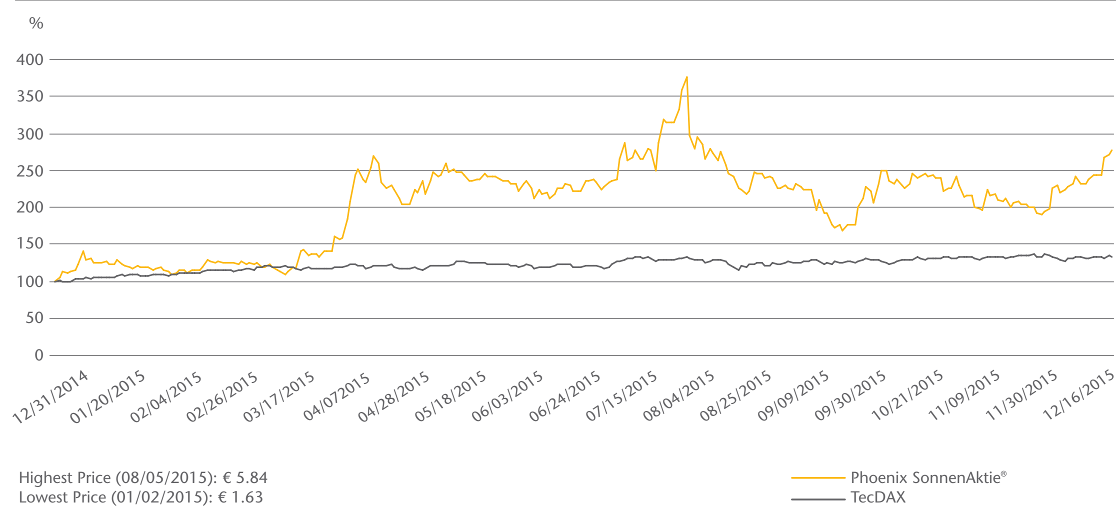
Subsequently, the stock rallied quickly. At the start of November, however, computer-driven algorithmic trading by some market participants exerted considerable downward pressure on the stock over several weeks. These speculative movements ended only when fresh positive news generated stronger demand on the market again. The stock closed the year on December 31 at EUR 4.30, having appreciated by 233 percent since the start of year, and significantly outperforming the TecDAX.

Recommendations from two German investor magazines around the New Year pushed the stock up briefly into high turnover. This New Year upturn was nevertheless neutralized again by sharp price declines in financial markets worldwide, which also caused our share price to drop again. Our announcement of a new major order from the USA, resulting in renewed share price gains, documented the extent to which many market participants are following our share. As of this report going to print, March 16, 2016, the Phoenix SonnenAktie® was trading at EUR 4.79.

Besides stock market trends in general and those for the solar sector in particular, the further performance of the share price will depend significantly on the news flow from Phoenix Solar.

With the further success of our turnaround and our return to a sustainable growth path, we continue to regard intensifying our capital market communication as an important task. This will entail placing capital market participants' interest in the Phoenix SonnenAktie® stock on an even broader footing, and promoting their understanding that Phoenix Solar – as a reliable partner for the planning, purchasing and turnkey construction of high-performance photovoltaic power plants and its focus on international growth regions – is pursuing an independent path within the solar sector, and is working on consistently exploiting the major opportunities for further revenue and earnings growth that present themselves.

Price performance of the Phoenix SonnenAktie® versus the TecDAX (01/01/ – 12/31/2015)



As of December 31, 2015, Phoenix Solar AG had a market capitalization of EUR 31.2 million (December 31, 2014: EUR 11.4 million). In terms of trading volumes (XETRA), average daily turnover amounted to around 45,000 shares in the 2015 financial year (2014: around 32,000).

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Ordinary Annual General Meeting of Phoenix Solar AG was held on June 23, 2015, in Fürstenfeldbruck. Almost all agenda items were approved with large majorities, some in excess of 90 percent. During voting, presence amounted to around 4.55 percent of the voting-right entitled share capital of EUR 7,372,700. The dividend was not distributed for the 2014 financial year due to the net losses incurred.

For the same reason, the company will not distribute a dividend for the 2015 financial year. A return to the past years' investor-oriented dividend policy depends on our business progression over the coming years.

SHAREHOLDER STRUCTURE

On October 12, 2015, Mr. Volker Wiewer, a private shareholder, announced that his interest in the company amounts to 5.36 percent. The Executive and Supervisory boards held a total of 1.26 percent of the shares as of December 31, 2015. The free float of Phoenix Solar AG amounts to 94.64 percent of the shares, according to the definition of Deutsche Börse AG.

INVESTOR RELATIONS

The Executive Board presented its financial year 2014 results to analysts and investors on March 31, 2015, and its interim quarterly results on May 7, August 6 and November 5, in each case by way of telephone conference.

The company gave a presentation at the DVFA Small Cap Conference on September 1, 2015, and to the Prior Capital Market Conference on September 22, 2015. In parallel with both of these events, the company also held one-on-one discussions with analysts, investors and brokerage houses in Frankfurt am Main.

We held a roadshow in Zürich on October 15, and one in Frankfurt am Main on November 18 – both events entailing numerous discussions with investors.

The Executive Board also presented the company's position and prospects on November 23 at the German Equity Capital Forum in Frankfurt Am Main, and on December 9 at the Munich Capital Market Conference.

The company's financial calendar for the 2016 financial year is available on our website at "Investor Relations", and is updated regularly. The current financial calendar can be found on page 150 of this report.

ANALYST COVERAGE

In the 2015 financial year, too, only one analyst continued to report regularly on the Phoenix Sonnen-Aktie® stock. The last update was on November 4, 2014, when Oddo Seydler published a "neutral" assessment and a EUR 2.80 price target.

Key Figures

		Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	2014
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]	€	15,762,833	25,362,088	20,274,925	31,239,636	31,239,636	11,435,058
Closing price (Xetra)	€	2.14	3.44	2.75	4.30	4.30	1.55
Highest price	€	2.23	4.17	5.84	4,30	5.84	5.77
Lowest price	€	1.63	2.07	2.63	2.75	1.63	1.51
Trading volume	Units	996,942	3,617,731	4,973,188	2,180,105	11,767,966	8,260,011
	€	2,003,093	12,854,290	20,774,254	7,733,582	43,365,218	28,550,607
Earnings per share[4]	€[2]	– 0.46[2]	– 0.85[2]	– 0.86[2]	– 0.71[2]	– 0.71[2]	– 1.38[2]
	€[3]	– 0.46[3]	– 0.85[3]	– 0.86[3]	– 0.71[3]	– 0.71[3]	– 1.38[3]

[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 12/31/2015	7,372,700 units
Share capital on 12/31/2015	€ 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	December 31
Accounting standards	IFRS
Commencement of stock market listing	11/18/2004
Designated Sponsor	Oddo Seydler AG

GROUP MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2015

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1 EVENTS AND RESULTS IN THE 2015 FINANCIAL YEAR

The 2015 financial year was a year of intensive sales and marketing activity, strong sales revenue growth, and a further marked improvement in income. A whole series of major reference projects in the USA made a significant contribution in this context. This successful business growth is attributable, firstly, to preliminary work performed during the difficult years of restructuring since 2011 – without which our Group would be unable to exploit the opportunities on offer today. Secondly, however, the path to securing the turnaround reflects our strong focus on further professionalizing the sales organization and all related processes, initially and especially in the USA.

The Phoenix Solar Group's strategy for its return to profitable growth was presented by Chief Executive Officer Tim P. Ryan to shareholders and the public at the Annual General Meeting of Phoenix Solar AG. As the core of the six-point plan, and as its top priority, we are working on arranging new and profitable project deals, and thereby securing the planned turnaround. More streamlined, global, and constantly controlled sales process and consistent follow-up on offers have bolstered, and continue to bolster, the growth upturn.

The second point emphasizes our clear positioning: Phoenix Solar continues to strengthen its EPC offering – engineering, procurement, construction – entailing turnkey construction – to deadline and budget – of long-lasting, high-performing photovoltaic power plants incorporating high technical precision and competitive value for money. Implementation of the related measures in the USA already resulted in remarkable successes during 2015. Taking specific particularities into account, the experience that we have acquired there will now be applied gradually in other regions, too.

Our competitive position is also being fortified by the establishment of a central supply chain function. Partly through economies of scale in purchasing via defined supply partnerships, this central supply chain function is aimed at improving purchasing levels, thereby helping to systematically reduce system costs and secure the profitability of projects. Having appointed a head of supply chain, we are currently implementing this part of the plan.

Moreover, the global network of strategic alliances with suppliers, project developers, financing partners and investors is to be strengthened and expanded. This will enable Phoenix Solar to seize business opportunities more quickly and with greater confidence. Our good launch on the markets in Turkey and Jordan is not least attributable to our close cooperation with local partners.

While our restructuring and cost-reduction measures (which have already been concluded since early 2015, as you are aware) have since lowered our breakeven point significantly, the six-point plan has the target of cutting system costs per constructed MWp by 6 to 8 percent per year. The efficiency enhancement measures that we have adopted include innovations in photovoltaic power plant design, and improvements in processes and purchasing.

Finally, in order to realize our ambitious growth plans, we are also reviewing and realigning personnel policy and organizational development: management, especially of our subsidiary in the USA, is also focusing on adjusting workforce capacities to the higher business volume. This task is all the more important as our new hires exclusively comprise experienced solar sector staff and managers who already command extensive experience, can contribute networks of contacts, and do not require an induction period before becoming fully operational.

Although we have already progressed far along our path to implementing our six-point plan, the project business nevertheless tends towards volatility, which is evident in how approvals of some projects are delayed occasionally, or even canceled entirely. We experienced such delays and cancellations both in the third quarter and at the 2015 year-end, and note that we are unable to fully match our announced forecasts as a consequence. For example, the surprising cancellation in September of a large and profitable project in Asia/Pacific (planned, but not yet ordered) necessitated a downgrade to our full-year EBIT forecast.

This is also connected with the fact that business processes that are, after all, always of a longer term nature cannot be oriented to the cycles of reporting dates and forecasting periods. One of the management's aims is to expand business activities to such an extent that such isolated events are no longer apparent in our overall course of business, especially as they have no negative impact whatsoever on medium and long-term business success and profitability.

OVERVIEW OF REVENUES AND EARNINGS

As the result of our successful focus on sales and growth, we generated EUR 119.4 million of consolidated sales revenue in 2015, representing growth of around 254 percent compared with the unsatisfactory course of the 2014 financial year (EUR 33.8 million). Profitability also developed well.

The operating result (EBIT) improved to EUR - 1.6 million compared with 2015, thanks to a reduction in personnel expenses and other operating expenses. This compares with an EBIT result of EUR - 4.6 million in the 2014 financial year. It should be noted that this latter result would have amounted to EUR - 9.1 million without the positive exceptional item of EUR 4.5 million last year from the disposal of the European photovoltaic power plant operating and maintenance business (O&M).

The consolidated net result attributable to shareholders of the parent company stood at EUR - 5.6 million for the 2015 financial year (2014: EUR - 10.2 million). This corresponds to a loss per share of EUR 0.71 (2014: loss per share of EUR 1.38).

CHANGES TO THE GROUP'S LEGAL STRUCTURE

In the second quarter of the 2015 financial year, Phoenix Solar AG acquired a shelf company as a wholly-owned subsidiary and renamed it as Phoenix Solar Overseas GmbH, Sulzemoos. It serves as a shelf company to bundle future additional international activities, especially in the Middle East.

In order to successfully exploit the foreseeable opportunities on offer from entering the Philippines market long-term, we founded Phoenix Solar Philippines Inc., Manila, as a wholly-owned subsidiary of Phoenix Solar Pte Ltd., Singapore. This company was included in the consolidated financial statements for the first time as of September 30, 2015. During the fourth quarter, this new subsidiary won its first order for a commercial & industrial (C&I) rooftop system with 720 kWp nominal output. Sales activities in the Philippines continue intensively.

CHANGES WITHIN THE EXECUTIVE BOARD

As of January 1, 2015, the new Executive Board members assumed office: Tim P. Ryan as Chief Executive Officer and Manfred Hochleitner as Chief Financial Officer. In parallel, Tim P. Ryan was also appointed as Chief Executive Officer and President of Phoenix Solar Inc., San Ramon, California, and has since also managed our business in the USA directly.

Olaf Laber stepped down from the Executive Board of Phoenix Solar AG on January 31, 2015. The Supervisory Board thanked him for his performance in managing the subsidiaries in Europe and the Middle East region, for establishing the sales operations in the USA, as well as for his contribution to establishing new business models in Germany. This latter, central area of activities could not be continued as planned due to business trends and the Group's results, and was already discontinued during the fourth quarter of 2014.

2 EVENTS AFTER THE REPORTING DATE: EVENTS AND RESULTS AFTER THE END OF THE FINANCIAL YEAR

On March 18, 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility in a modified and slightly reduced scope until September 30, 2018. The new financing facility now comprises a volume totaling around EUR 101 million, and consists of a syndicated loan of EUR 85.4 million, as well as other bilateral cash and bill guarantee lines.

3 BASIS OF THE GROUP

3.1 LEGAL STRUCTURE

Phoenix Solar is an internationally operating photovoltaic system integrator. The parent company, Phoenix Solar AG, was formed on November 18, 1999, and registered in the commercial register of Munich District Court under commercial registry number 129117 on January 7, 2000. As of December 31, 2015, eleven subsidiaries and eleven project companies were subordinated to the parent company, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

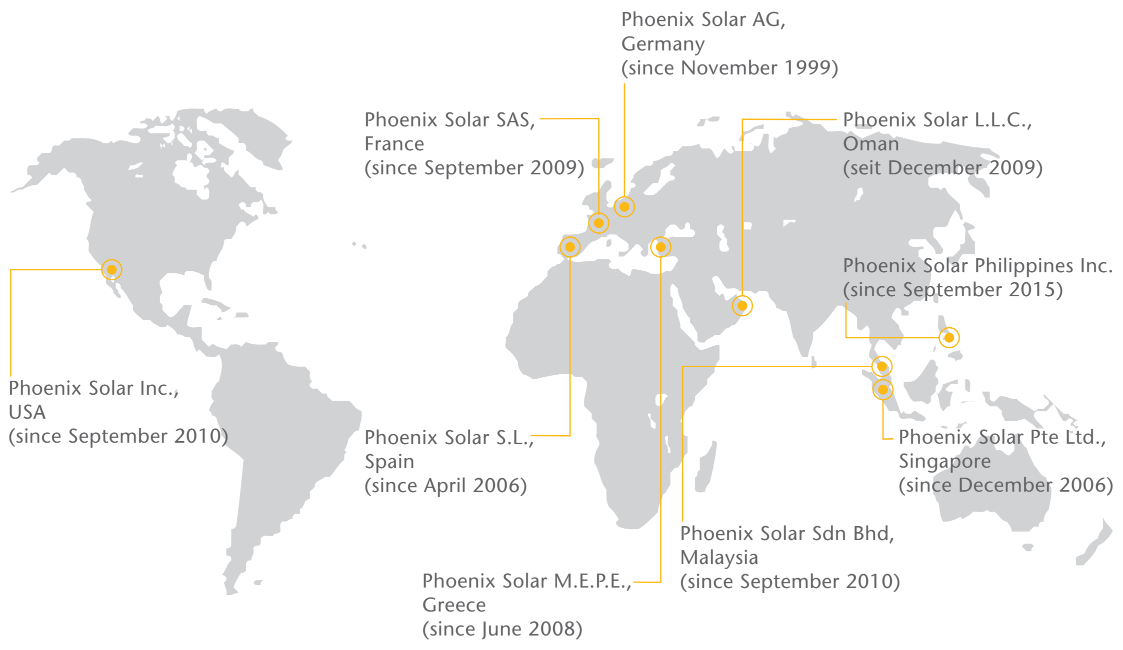
The business headquarters of Phoenix Solar AG are located at Sulzemoos near Munich, Germany. The central departments were managed from this location in the 2015 financial year.

Chief Executive Officer Tim P. Ryan heads up the areas of Strategy, Business Development, Sales and Corporate Communications, as well as business in the regions of the USA, Asia/Pacific and the Middle East. During the course of the first quarter of the 2015 financial year, he also assumed direct management of the subsidiary in the USA, as President and Chief Executive Officer of Phoenix Solar, Inc. CFO Manfred Hochleitner is responsible for the areas of Finance and Administration, Internal Audit, Legal and Compliance, as well as Investor Relations. Our European subsidiaries also report to him. Dr. Murray Cameron is responsible for Business Support International.

The shares of Phoenix Solar AG have been admitted to 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 SonnenAktie®" of this annual report.

3.2 LOCATIONS

Company locations (as of December 31, 2015)



Phoenix Solar AG maintains an active presence on key photovoltaic markets through its subsidiaries and representative offices, and offers its products and services worldwide. Phoenix Solar AG maintained branches on three continents through its operating subsidiaries in the 2015 financial year.

Our subsidiary in San Ramon, California, attends to our currently most significant sales region of the USA. This subsidiary maintains a branch office in Phoenix, Arizona.

For the last nine years, the subsidiary in Singapore has served the fast-growing markets of Asia/Pacific (including the Philippines and Thailand, for example), and coordinated the Group's business in that region. A subsidiary was founded in Manila, Philippines, in order to better exploit opportunities arising in the Philippines. Within our Asia/Pacific region, a local subsidiary also operates in Kuala Lumpur, Malaysia.

We have also been active in the Middle East region since 2009 through our subsidiary in Oman. We are currently working together with our local cooperation partners especially in Turkey and Jordan, where we garnered several project orders in 2015.

In Europe, Phoenix Solar was present in France, Spain and Greece. Our portfolio continues to contain one photovoltaic plant each in Italy and France.

Along with the Group headquarters in Sulzemoos near Munich, which, besides two projects being conducted on an extraordinary basis, now provides only the holding company functions for Phoenix Solar AG, the Group's main locations are located in San Ramon (California, USA), in Singapore, in Muscat (Oman), in Lyon (France), in Athens (Greece), in Madrid (Spain), Manila (Philippines) and in Kuala Lumpur (Malaysia).

3.3 BUSINESS SEGMENTS AND BUSINESS MODELS

As a globally operating photovoltaic system integrator, Phoenix Solar plans, builds and operates large photovoltaic power plants. The turnkey assembly of such solar systems as our core competency includes the procuring of all necessary components and services. We aggregate the activities this business model comprises within our Power Plants segment.

To understand this, it helps to observe this business model within the value chain that starts with the idea of building a system through to the actual delivery of electricity to consumers. Project development forms the starting point in this context. It comprises stages ranging from securing the plot of land, through purchase or lease, for example, to connecting it to street and supply networks, and all the way through to arranging financing for the later overall project, and seeking and contracting a subsequent operator or entity that markets the electricity. This also includes clarifying legal questions and obtaining approvals.

The actual construction order is not issued until this part has been largely concluded. In most instances, a general contractor assumes responsibility for this part of the project, referred to in the sector as EPC (Engineering, Purchasing and Construction). This is the area in which Phoenix Solar specializes. Our range of products and services includes the requisite planning services, the purchasing of the required components in close coordination with customers, and turnkey construction of the complete photovoltaic plant. In this context, we prioritize detailed execution planning and the agreement of defined step payments by the client depending on progress of construction. It is not our policy to pre-finance projects from our own capital resources.

We identify our significant competitive advantage in engineering, in other words, the detailed design and planning of the plant. Our many years of experience in optimizing photovoltaic power plants and cross-disciplinary knowledge of the necessary technologies and components, as well as purchasing markets, enable us to constantly provide our customers with systems on time and to budget, and that yield returns for them that are above the sector average.

By contrast, we generally mandate local subcontractors with the actual construction execution, although we continue to oversee and manage building work. In cases where the start of construction execution is also connected with a transfer of liabilities to the subcontractor, our services and revenues are allocated to the Components & Systems segment for accounting reasons.

Once the user has accepted or commissioned the completed system, and it has been transferred to the user, we are also happy to manage subsequent operation and maintenance. Long-term contracts that set out defined services and constant monthly installments are generally concluded for this purpose.

We supplement this range of products and services through other services, particularly in the USA. We also support our customers in the coordination, securing and realization of the necessary financing, as well as in dealing with complex formal approval procedures. We have qualified and experienced employees at hand for these services, too. This can enable us to already participate in individual parts of project development, thereby improving our position in relation to any subsequent awarding of a construction order.

In such service offers, we can highlight our many years of experience, the fact that we deliver on budget and on time virtually without exception, and consequently our very good references. In other words, from the Group's perspective, the sales function is particularly important to our business success.

Customers of the Power Plants segment include mainly energy supply companies, as well as small and large retail/wholesale, industrial and commercial companies. Important target customers also include institutional investors that are setting up investment fund models, or that hold large-scale photovoltaic plants in their own portfolios.

With this business model, Phoenix Solar covers the segments for high-performance grid-connected photovoltaic system dimensions – from commercial and industrial rooftop systems (C&I) from around 500 kW of peak output (kWp) in the "Commercial and Industrial Rooftop" market segment, to large-scale power stations of 100 MWp and above in the "Utility Scale" market segment.

On the other hand, some smaller subsidiaries are to a lesser – and currently further decreasing – extent also specialist wholesalers for complete solar electricity systems, solar modules and accessories. 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. This segment's customers include resellers and installation companies. In this classic wholesale model, we purchase parts, components and systems within the respective subsidiary, and then forward them to the ordering customer against invoicing. Income from this business arises from the respective achievable trading margin, as well as related services. This segment played a minor role in the 2015 financial year. Revenues from the trading business continue to be generated only in Europe and Asia/Pacific.

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

As a manufacturer-independent systems supplier, Phoenix Solar is nevertheless always at the cutting edge of technology. Furthermore, the company is able to tailor its offering of products and services to suit individual customers' specific requirements, and regularly adds new technologies and innovative products to its existing portfolio, thereby offering its customers optimal solutions on the basis of good cost/benefit trade-offs. 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 2015, the Phoenix Solar Group offered a very broad-based portfolio of products and services for photovoltaic systems of every size class. This enables us to address our clients' needs flexibly and individually, and offer photovoltaic systems oriented to respective client needs and market trends.

3.4 EMPLOYEES

After discontinuing its business area for new business models in Germany, and after implementing related personnel measures, the number of employees at Phoenix Solar AG declined further again, which also reduces the total number of employees within the Group. Job cuts were implemented on the basis of a settlement of interests and a redundancy plan agreed with employee representatives.

Compared with 96 employees at the end of the 2014 financial year (excluding Executive Board members and including temporary help staff), the Group employed a total of 79 individuals as of December 31, 2015. Additional, business-led job cuts especially at the subsidiaries in Europe and Asia/Pacific were not compensated by new hires, including those made in the USA.

An annual average of 85 full-time equivalents were employed Group-wide (excluding Executive Board members, but including temporary staff; 2014: 110). After concluding the restructuring, we are endeavoring to keep fixed costs at an appropriate level. Firstly, applicants only receive fixed employment contracts if they already have sound sector experience. Secondly, suitable tasks are performed by qualified external freelancers, where required.

The ratio between employees at our international subsidiaries and total Group employees rose further over the course of the year. As of December 31, 2015, around 84 percent of all our staff were employed at our subsidiaries (December 31, 2014: around 68 percent).

At the end of the 2015 financial year, the Group employed staff from 13 nations and all age groups, and from a wide variety of backgrounds. Of the workforce, 31.3 percent (excluding Executive Board members, trainees and temporary staff) comprised women (2014: 33.7 percent). At the end of the 2015 financial year, the share of women holding first-level management positions below Executive Board level stood at around 36.4 percent.

The Phoenix Solar Group employed no trainees at the end of 2015. Due to concentrating all efforts on securing the turnaround, the company financial year is temporarily pursuing staff further development and training in a reduced scope during 2015. We will re-intensify these topics significantly over the coming years.

This includes resuming the systematic planning, implementation and evaluation of training measures for staff from the various specialist departments of the holding company, and initially from some selected subsidiaries. These measures are taken as part of the quality management system that again enables Phoenix Solar AG to operate under DIN EN ISO 9001:2015 certification in the 2016 financial year.

The corporate strategy, as currently expressed in the aforementioned six point plan, highlights the essential role that our staff play in the company's business success, among other factors. As our competitive advantage is based significantly on our team's qualifications, only proven solar sector personnel who already command extensive experience and do not require induction periods are employed as new operational staff. We offer them a corporate culture based on communication, defined and transparent processes, and clear performance orientation.

4 GENERAL CONDITIONS

In each of our individual markets, demand for our services depends to a great extent on whether investors and entities, the public sector, and private companies are prepared to invest in photovoltaic systems. Environmental awareness and cost savings represent important motives in this context. The globally observable trend toward cleaner energy generation is also reflected in rising demand for photovoltaic systems.

For Phoenix Solar, one of the core elements of the company's philosophy and corporate strategy has always been to participate in all activities entailed in the global revolution toward renewable energy sources – especially relating to photovoltaics. We regard it our paramount objective to contribute to a significant reduction in greenhouse gas emissions. Through constructing photovoltaic power plants worldwide with aggregate nominal output of around 99 MWp in 2015, we have ensured that approximately 2.5 million tonnes less CO_2 is emitted over these systems' lifespans.

The wish to make a contribution to protecting the environment and resources through deploying renewable energies not only forms the foundation of corporate activity for us, but is also shared by entities and individuals globally. This is undeniably a widely held motive that helps to further boost worldwide demand for photovoltaics. No reliable data are available about the characteristics of such desires and motives, and the influencing factors behind the activities that are undertaken, however.

Maintaining secure, affordable and sustainable electricity supplies for a growing global population, or even just establishing such supplies in the first instance, can be regarded generally as one of the major challenges confronting the world. A total of around 1.2 billion individuals currently have no access to electrical energy, according to data from the International Energy Agency.

Subsidies for energy generation fell in 2014. In this context, the utilization of fossil fuels was subsidized to the tune of USD 493 billion worldwide (2013: USD 550 billion), while governments invested more in expanding renewable energies than in 2013, but still only around USD 135 billion of subsidy funds (2013: USD 120 billion).

Although supporting electricity generation from renewable energy sources through public funds may continue to prove helpful, higher investments in photovoltaic systems nevertheless show the extent to which this technology has become more competitive – despite declining. Overall, around USD 329 billion were expended on advancing solar electricity production worldwide in 2015, four percent more than in 2014.

Global demand for electrical energy doubled over the period from 1990 to 2013, and continues to rise, according to data from the International Energy Agency (IEA). Depending on influencing factors such as greater energy efficiency, policy-led energy savings measures, or technical progress, demand is set to grow from around 20,150 terawatt hours (TWh) in 2013 to between approximately 30,000 TWh and 37,000 TWh by 2040. The share of renewable energies in generating this volume is forecast to increase from currently around 22 percent to 34 percent by 2040.

Photovoltaics brings its benefits to bear in satisfying this growing demand: solar electricity is climate-neutral, and can be generated locally, including in small units with minimal input. Worldwide in 2015, systems with around 53 GWp of nominal output were newly installed for around USD 90 billion of investment volume. Given the 75 percent decline in prices for large systems between 2010 and 2015, photovoltaics has matured into a competitive technology that is increasingly independent of subsidies.

Given this background, worldwide photovoltaics capacity will increase almost eightfold from 137 GWp in 2013 to 1,066 GWp by 2040, then contributing around 3.9 percent of the output required for global electricity consumption, at around 1,521 TWh, in the most probable scenario presented in the IEA's World Energy Outlook 2015. The IEA has thereby upgraded its forecast again: in last year's World Energy Outlook, the IEA still anticipated 930 GWp of photovoltaic capacity and 1,290 TWh of output for 2040.

The extent to which these upgraded forecasts might also be overtaken by actual trends remains to be seen. A global climate protection treaty was signed on December 12, 2015 at the global climate conference in Paris, which demands – and is aimed at driving – a further expansion of renewable energy deployment in order to thereby reduce CO_2 emissions. We regard this agreement as a major step toward limiting global warming, and protecting our planet against continued environmental damage.

Whereas climate protection targets on the one hand, and economic considerations of the costs and benefits of integrating renewable energies into energy supply systems on the other, are increasingly influencing actions taken at policymaking level, direct financial and economic considerations form the focus for individual customers.

The financial and economic aspects of the readiness to invest in photovoltaics first concerns the question as to the extent to which investors can rely on general conditions on local energy markets delivering sufficient legal and planning security. Assuming this to be the case, the returns generated by photovoltaic systems then become decisive. In turn, such returns depend on various factors. The investment expense, in other words, the level of capital employed, is directly associated with the purchases costs of the modules and other components. If the capital required is borrowed, financing conditions also affect returns.

Depending on market conditions, earnings generated may depend on the feed-in tariffs granted, or selling conditions. Tax relief is granted in some locations and regions. As the consumption of solar electricity generated by individual households is now much cheaper in many places than buying from local energy utilities, the savings made, in other words, the difference between the cost of producing and of buying energy, is becoming increasingly important.

Adopting a different view to previous years, the International Energy Agency (IEA) regards future electricity price trends as no longer determined by fossil fuel price trends. Instead, increasingly political influences are equally evident, such as grid stability costs. For this reason, the IEA anticipates that electricity prices will rise further worldwide (apart from local exceptions), and indeed despite extraordinarily low oil and gas prices at present.

4.1 PURCHASING MARKETS AND PRICE TRENDS

Construction costs for photovoltaic systems have decreased so sharply over the past years that the total production costs (Levelized Cost of Energy, LCoE) of photovoltaics in larger systems, especially utility-scale, are already fully competitive with coal, gas and nuclear generated electricity. The planning and construction of these types of solar power plants comprises a significant proportion of our business volume.

The LCoE figure enables different energy sources' system costs to be compared. Key factors in the calculation include investment, capital costs, amortization, and maintenance over the operating life. For photovoltaic power plants with polycrystalline modules, the figure was stated at between USD 58 and USD 70 per MWh in 2015, depending on regional conditions. Production costs for nuclear generated electricity were recorded between USD 97 and USD 136, for coal power stations between USD 65 and USD 150, and for gas turbine power plants between USD 52 and USD 78. Any state subsidies or state add-on costs are not included.

Two of the key factors included in the calculation of total production costs (Levelized Cost of Energy, LCoE) include the costs of purchasing the solar modules, as well as so-called "balance-of-system" (BoS) costs.

Following sharp declines in 2011 and 2012, the prices of solar modules have largely stabilized since 2013. Regional module price fluctuations that have been observable since then are due mainly to political influence. Successful efforts on the part of some module producers to raise import duties and other trade restrictions have led to a distortion of the price structure and partially to higher purchasing prices.

The market environment in the USA and Europe in 2015 remained characterized by continued political debate about anti-dumping actions directed against modules imported from China. The European Commission will nevertheless now review the continued existence of the duties in a defined process, and might allow them to be phased out. In addition, restrictions on supportive instruments, or on burdens and charges on the utilization of solar systems in the EU region, have fed through to a further weakening in demand for photovoltaic systems.

Whereas Europe's significance as formerly the largest sales market for Chinese manufacturers decreased once again, their sales markets within China, as well as on other international markets such as the USA and Japan, have experienced growth. Consequently, module pricing has developed in line with specific regional factors. It should nevertheless be noted that the average price level is tending to decline somewhat further. On the basis of this module price level, it can be assumed that photovoltaic system construction will remain possible at costs that make their operation viable before taxes and levies.

While the decline in prices for solar modules since 2011 has already given a massive boost to photovoltaics' competitiveness, the launch of 1500V technology for utility-scale systems will contribute to a further tangible reduction in system costs. We are already deploying this technology in the first projects in the USA. Further cost reductions in this area depend mainly on performance improvements in BoS components.

As far as different module technologies are concerned, crystalline modules have asserted their leading position on the market. The Phoenix Solar Group has meanwhile fully focused its product portfolio on this technology. As we decentralized purchasing at an early stage, our international branches outside Europe remained unaffected by internal restructuring work, or the purchasing situation within the European Union (EU), and were able to secure module supplies on regionally appropriate terms.

Whereas the decision to purchase on a decentralized basis had its justification during the restructuring phase, the return to significant growth now necessitates that purchasing and supplies be reintegrated globally. Work is currently being conducted on developing a global supply chain strategy, and implementation of the resultant structures and processes is being prepared. Further important steps include consolidating the supplier base, developing a system of preferred suppliers at global and regional level, and positioning our company as a strategic customer with our most important suppliers.

This step forms part of the Executive Board's six point plan, and serves to further improve Phoenix Solar's competitiveness and profitability.

4.2 SALES MARKETS

Photovoltaics are becoming one of the mainstays of global, climate-neutral electricity supplies. Although specific markets can exhibit extremely different growth rates, Solar Power Europe, the European sector association, anticipates continuous growth in annual worldwide Photovoltaic capacity newbuilds. In their most optimistic scenario, expansion construction figures are set to more than double between 2014 and 2019 to 86.5 GWp. Although they might increase by just 18 percent over this period – imputed in the lowest case – this nevertheless also signifies further growth opportunities for our company.

4.2.1 USA

The USA represented our by far most important sales markets in the 2015 financial year. At almost EUR 100 million, we achieved around 82 percent of our consolidated revenue in the USA (2014: EUR 7 million), and anticipate further growth – both absolute and relative – for subsequent years. Thanks to tapping new natural gas deposits, the USA is tending to develop from a large energy importer to an exporter of coal, oil and gas, despite considerable declines in oil and gas prices currently starting to force many producers out of the market.

Energy markets are largely deregulated, and structured as free markets. Although some federal, interstate regulation is in place, at the same time considerable differences in legislation exist between individual US states. The state of Hawaii, for example, has already set itself the target of covering 100 percent of its electricity requirements from renewable energy sources. On the other hand, setbacks can also occur in individual cases, such as the revision of net metering regulation in Nevada in December 2015, which has resulted in the complete collapse of this state's market for small, private rooftop systems (commercial & industrial rooftop/C&I).

Generally, however, a high degree of legal and planning certainty can be assumed. Under the Obama Administration, the USA has made a return to significantly greater involvement in international discussion on climate protection targets, setting up various measures to promote renewable energies, and consequently also solar technology, at both federal and individual state level. Along with the US Climate Action Plan from 2013 and the Clean Power Plan, at federal level this primarily includes tax relief for investments in photovoltaic systems (Investment Tax Credit, ITC), which US Congress extended for a further seven years on December 18, 2015. The US government has thereby underpinned its intention of supporting renewable energies and adopting a leading role in the battle against global warming.

This groundbreaking decision will further accelerate the trend toward solar and other renewable energies in the USA. It offers an additional incentive for energy producers, project developers and investors, and thereby also offers a foundation for further strong growth in the US market for commercially and industrially (C&I) operated solar systems, as well as utility-scale plants.

Many states have imposed quotas on energy supply companies, regulating how much electricity they must provide from renewable sources in the future. Utilities are seeking to meet these requirements 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 accumulated output of newly installed mid-sized and smaller systems is growing significantly.

A further argument in favor of utilizing photovoltaics relates to electricity price rises. Average electricity prices for companies and private households in the USA have risen by around 23 and 34 percent respectively over the 2005 to 2015 period. For this reason, we are assuming that all segments of the photovoltaic offering will encounter market growth there.

Overall, in the USA, we expect newly installed output of 12.5 gigawatt peak (GWp) for 2016, of which 7.5 GWp for utility-scale plants. In the following year, 2017, the current accelerated investment effects will prospectively result in a dip due to the feared, but not yet materialized, abolition of the ITC – with additional construction of 10.7 GWp (of which 6.4 GWp utility-scale). Further growth significantly ahead of current levels is then anticipated from 2018.

4.2.2 ASIA/PACIFIC

We generated around 7 percent of our 2015 consolidated sales revenue in our Asia/Pacific region (Southeast Asia and Middle East together: 28 percent), which is served by our subsidiaries in Singapore, Malaysia, and (since September 2015) the Philippines. The market in Thailand, where we have also already built large facilities, is also being addressed from our Singapore base for the time being. We are confronted by very different general conditions in some countries that we address.

In Singapore and most Southeast Asian states, electricity is generated conventionally almost exclusively through the combustion of coal, oil and gas, with some fossil fuel energy source utilization enjoying strong subsidies and support. Many countries in the region have meanwhile announced ambitious expansion targets for renewable energies, and launched corresponding subsidy programs.

The Philippines, for example, has implemented a National Renewable Energy Program along with a Renewable Portfolio Standard to ensure that new renewable energy generation growth outpaces the growth of traditional sources of electricity in the coming years. The country, with its many islands, will also be able to advance supplies of electricity to remote areas through expanding solar power. At present, only around 70 percent of the country enjoys access to electricity. Alongside a feed-in tariff, funding takes the form of tax reliefs, subsidized loans, and the promoting of own consumption from off-grid systems by making subsidies available, as well as a net metering model for grid-connected systems since July 2014. In March 2015, capacity targets for plants with feed-in tariffs were hiked tenfold to 500 MWp. We anticipate additional construction of 300 to 500 MWp per year over the coming years, almost 90 percent of which in the utility-scale segment. In December, our newly formed subsidiary in the Philippines received its first order for a 0.7 MWp facility, and will further expand its sales and marketing activities.

Thailand: In June 2015, the Thai government, with its Thailand Alternative Energy Development Plan (AEDP 2015-2036), revised its predecessor governments' photovoltaic expansion targets, and now plans installed capacity of 6 GWp by 2035. This would then correspond to an approximately 30 percent share of the country's entire electricity generation. Mechanisms deployed also include feed-in tariffs, ultimately also with a view to giving rural regions better access to electricity supplies. For this reason, feed-in tariffs that were introduced in mid-2014 initially favored local systems with system sizes below one MWp.

To supplement this, the National Energy Policy Council (NEPC) set up an "Agro-Solar Program" in September 2015 to support the construction of solar farms of up to 5 MWp each within the planned total scope of 800 MWp. We anticipate additional construction of 620 MWp in Thailand during the next investment phase in Thailand in 2016 and 2017, and a further slight increase in the market in subsequent years.

Singapore: Almost no ground mounted facilities are built in Singapore due to the city-state's geographic location. Instead, Singapore is dominated by commercial and industrial (C&I) rooftop systems up to the one megawatt range. Our subsidiary there boasts a large number of well-regarded reference projects. At present, the trend in Singapore toward the leasing of roof systems is becoming stronger. In order to tap this market trend, our Singapore subsidiary has expanded its network to include further financing partners. Singapore is also pursuing an ambitious floating solar program with a goal of 200 MWp within the next five years. Our Singapore subsidiary is participating in the pilot study with the Economic Development Board to validate the technology.

Malaysia: Further implementation of solar electricity generation depends mainly on state initiatives at present. The 2015 amendment to the Renewable Energy Act sees renewable energies accounting for 11 percent of electricity generation by 2020. Guarantees and financing assistance are to be set up for this purpose. The government is preparing a net metering solution for both commercial and industrial rooftop (C&I) and utility-scale photovoltaic systems. The Malaysian market for photovoltaics will prospectively reach around 100 MWp in 2016, although it may well grow dynamically in following years.

4.2.3 MIDDLE EAST

We achieved considerable progress in the Middle East region in the 2015 financial year. The region contributed 7.1 percent to consolidated revenue, and enjoys good further growth prospects despite very different conditions in the region's states, and especially the critical political situation.

We are currently focusing particularly on Turkey and Jordan, where we won several projects in 2015, of which some have already been transferred successfully to customers.

Turkey not only faces growing energy demand but also rising electricity prices. This situation had prompted the Turkish government by 2010 to place greater focus on the generation of renewable energy. Its recently approved strategy plan sets a target of renewable energies accounting for 30 percent of the energy mix by 2023, aiming for 5 GWp of photovoltaic capacity by then. Given this situation, we anticipate 355 MWp of additional construction in 2016 in Turkey, and further significant growth in 2017 and 2018. In order to position ourselves successfully within a highly competitive environment, we have agreed a strategic partnership with Turkey's Asunim Group, an internationally operating solar company. This cooperation venture is currently developing very positively.

Jordan is a small photovoltaic market where we have already successfully gained a footing – also thanks to the cooperation venture with Millennium Energy Industries that we entered into in 2014. Depending to a relatively large extent on energy imports, Jordan also took an early decision in favor of promoting renewable energies. A tendering model is prevalent in public sector photovoltaic projects in this context. We assume that around 245 MWp will be newly built in 2016 in Jordan, while the growth pace is set to slow over following years.

Gulf region states suffered a significant setback in 2015 due to the collapse in world market crude oil prices. As a consequence, the awareness is also growing there that new business models have to be developed. In order to accommodate rising local electricity consumption while maintaining high oil and gas export quotas, most countries in the region have opted to expand renewable energies, and are planning corresponding large-scale power plant projects. Actual implementation is considerably hampered by high administrative hurdles and protracted approval procedures, however. We will nevertheless exploit the opportunities on offer in Persian Gulf adjacent states. Our KAPSARC (King Abdullah Petroleum Studies and Research Center) project, which we built in Riyadh for Saudi Aramco, remains a good reference project.

4.2.4 EUROPE

The situation on all European markets is characterized by pronounced instability and legal uncertainty in the aftermath of the sovereign debt crisis and resultant consolidation efforts by various governments. In the European countries addressed by our subsidiaries demand has long been driven by government-backed measures. In most instances, satisfactory feed-in tariffs were granted. These tariffs were abolished in many instances, with existing power facilities being subsequently and partly retrospectively charged with taxes and levies, however.

The combination of these factors has led to considerable uncertainty for potential buyers and investors and resulted in the photovoltaic market drying up completely in some countries. The previous years' trend continued as a consequence. Compared with a total of around 17 GWp newly installed in 2012 in Europe, this figure fell to around 11 GWp in 2013, and to around 7 GWp in 2014. Given this background, the European business of the Phoenix Solar Group generated a share of just 3.7 percent of consolidated sales in 2015, compared with 2014 when it still generated 12.7 percent. After relinquishing all business activities on the German market, this market no longer plays a role for our business.

Spain: In Spain, 2015 proved another very unsatisfactory year in terms of additional photovoltaic construction. Overall, no more than 47 MWp was newly built. Although this is more than the 22 MWp constructed in 2014, it falls far short of previous years' levels, and represents a mere 1.7 percent share of European Union expansion construction. As a consequence, solar electricity's share of overall Spanish electricity generation failed to grow compared with previous years. As already in 2014 and 2013, photovoltaics accounted for a 3.1 percent share of the country's electricity supplies in 2015, according to data from Spanish grid operator Red Eléctrica de España.

New legislation was enacted at the end of 2015 that re-regulates solar electricity production for own consumption. This created a legal and economic framework where private and commercially utilized own-consumption projects can now be developed again. Despite some disadvantages, this legislation also has the potential to open up new opportunities on the Spanish photovoltaic market for us.

Overall, the political situation remains characterized by great uncertainty. Since elections in December, Spain's Parliament has been unable to form a new government due to the political stalemate up to March 2016. By contrast with predecessor governments, the parties of the left have signaled that, should they form a government, they will push for policies favoring renewable energies. This could create more favorable regulation for net metering, and lead to new impulses for utility-scale photovoltaic plants on the Spanish islands. In view of this situation, our Spanish subsidiary has already identified and contacted potential customers.

France: Around 18.7 percent of electricity consumed in France already derives from renewable energies, with 1.6 percent being attributable to photovoltaics. For industrial customers, electricity prices increased by 3.5 percent during the course of 2014, but still amount to less than EUR 0.10/kWh. Private households had to absorb a 5.2 percent price increase, paying around EUR 0.15/kWh at the end of the year (2014: EUR 0.14/kWh).

Funding instruments for the construction of photovoltaic plants consist of a system of feed-in tariffs on a sliding scale, tax relief, and rolling depreciation of larger photovoltaic power plants. A total of 6.4 TWh of electric energy was generated with a photovoltaic in France in 2014, 1.2 TWh, or 22.9 percent, more than in 2013. Photovoltaic output installed in France reached a total of 6.046 gigawatts at the end of June 2015, including 350 megawatts operated by French overseas territories. The French government subsequently increased installed capacity targets, and now aims to realize nominal output of 8 GWp of solar plants by 2020.

Actual additional construction rates nevertheless remain at a low level. Feed-in tariffs have been reduced several times. Current tariffs make economic operation of new systems less attractive, as own consumption is also burdened. Very recent tenders have taken practically only French suppliers into account. Our French subsidiary has responded to the collapse in demand and reduced its activities accordingly.

On the other hand, however, the Environment Minister raised feed-in tariffs for facilities between 100 kWp and 250 kWp again slightly during the course of the year. Moreover, in autumn 2015 the volume of tenders for photovoltaic systems with outputs > 250 kWp was doubled compared with those concluded in May 2015 from 400 to 800 MWp. Further announcements give rise the expectation that three tender rounds will now be published per year. Should such announcements also be implemented, it would lead to the anticipation of around 750 MWp of market volume for 2016. French photovoltaic capacity could return to strong growth in 2017 and 2018, by 0.9 GWp and 1.1 GWp respectively. To this extent, we remain active locally, and will endeavor to position ourselves as an EPC partner where such a range of products and services is not covered by operators themselves.

Greece: Trends in Greece in 2015 continued to be characterized by the difficult situation of public and private budgets, and restrictions on capital movements. The photovoltaic sector also remained very weak in 2015.

Only 9 megawatts of photovoltaic output was newly installed on the Greek mainland over the whole of 2015 (2014: 16 MWp), according to data from Greek transmission system operator L.AG.I.E (Operator of Electricity Markets, S.A.). Sector association Helapco calculates the overall market for 2015 at 10.4 MWp, of which around 1.4 MWp based on the net metering program that became operative at the end of 2014. Overall, the country consequently has 2.61 GW of installed photovoltaic output as of the end of 2015. According to L.AG.I.E data, 2.09 gigawatts exist on the mainland deriving from grid-connected systems with more than ten kilowatts of output (2014: 2.08 GWp), as well as 351 megawatts deriving from retail rooftop systems with less than ten kilowatts (2014: 351 MWp).

Our Greek subsidiary is assuming that overall conditions will show a slight improvement in 2016, including due to a new government program to promote renewable energies, and the announced opening up of grid access to photovoltaic systems of up to 500 kWp. These positive factors nevertheless remain hampered by capital movement controls and difficulties encountered by potential investors in raising funding.

5 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops our Group strategy, and coordinates 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 market conditions for photovoltaics. The medium-term objective in this context is to tap markets at the earliest possible date, where possible and appropriate, to enter into partnerships with local companies, acquire profitable orders, and establish the company as a reliable supplier. After we proved the success of our business model through significant improvements in revenue and results in the 2015 financial year, the Executive Board, with the help of external advisers, started with the development of a medium-term corporate strategy that will strengthen our market position sustainably, and expand it.

The allocation of tasks and collaboration at Executive Board level are determined by a business distribution plan, and a set of rules of business procedure. The Executive Board makes decisions on relevant topics, and holds regular in-depth consultations on important developments in their individual remits. Along with his areas of responsibility, the Chief Executive Officer is also President and Chief Executive Officer of the subsidiary in the USA.

Please also refer to the Corporate Governance Report, which also includes the Executive and Supervisory boards' joint corporate governance statement and declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

The Supervisory Board of Phoenix Solar AG, which consists of three members, consults with 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 global business activities. The MIS comprises a complete set of monthly reports on the revenues and earnings of the Phoenix Solar Group as well as on its subsidiaries and individual segments. Besides the balance sheet, income statement and cash flow statement, the MIS also tracks a series of key indicators to assess the business performance of the integrated organization units.

Monthly management reviews between the national companies and the allow business progress to be monitored, with any differences between budget and actual being identified. Appropriate countermeasures are determined, depending on the amount and significance of variances against budget, and the effects of such measures are monitored in subsequent management reviews.

The management of opportunities also forms a regular topic of management reviews. At such management reviews, business prospects are discussed, short- and medium-term measures to secure and improve them are determined. A subject of opportunities management and a key Executive Board task is also the ongoing adaptation and further development of the Group strategy, which is intended to secure sustainable growth for the Group.

Key financial indicators relating to the central goals of liquidity and profitability are particularly important, especially as part of the Group's current realignment. At the same time, only a return to growth can secure the Group as a going concern. Consequently, besides the aforementioned key financial indicators, the sales-oriented steering metrics that have been listed also comprise important performance indicators for the Phoenix Solar Group in its management of the Group.

5.1 KEY FINANCIALS

5.1.1 REVENUES

The revenue trend reflects the success of our business and sales at the top level. The budgeting of costs and earnings is based on specific revenue expectations that are agreed, coordinated and monitored constantly with the operating units and central functions.

5.1.2 EBIT

EBIT records operating profitability before interest and tax, and is consequently the central steering metric for Phoenix Solar's business, especially at the level of its subsidiaries, and forms a regular component of management reviews.

5.1.3 EQUITY

Equity includes all elements of the company's profitability up to the present, including taxes. In accounting terms, equity represents 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 101 million were granted to the company in the context of the syndicated financing facility and its extension on March 18, 2016. Keeping within these credit lines is crucial to the continued existence of the company. To this extent, we pay a great deal of attention to liquidity planning and liquidity management. For this reason, the utilization of the credit lines is supervised and managed constantly.

5.2 SALES-ORIENTED CONTROL PARAMETERS

As part of management reviews, we are constantly closely monitoring and updating new order intake as a sales-oriented steering metric, in particular. Given the business model's logic, these comprise rolling metrics that cannot be planned or forecast precisely on the basis of either accounting periods or reporting dates. They nevertheless form essential elements of the ongoing management and controlling process. The assessment of current sales progress (sales pipeline) was repositioned and standardized Groupwide in coordination with the subsidiaries in 2015 in order to further improve internal planning and management processes.

5.2.1 NEW ORDER INTAKE

Although a high level of sales activities forms a very good foundation, it is insufficient for an actual return to sustainable growth. Achieving this goal means that the high level of activities results in orders actually being placed. For this reason, we regularly and intensively follow our key performance indicator of new order intake.

5.2.2 FURTHER SPECIFIC KEY INDICATORS

Situation-specific key indicators have also been introduced, and are monitored, in order to record and manage particular developments and trends in individual areas.

5.3 COMPLIANCE AND CORPORATE GOVERNANCE

To observe and disseminate high ethical standards at Phoenix Solar, a standard compliance organization that is binding on the entire Group is in force. The compliance organization reflects the Group's current positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It was approved by the Executive Board and managers, and communicated to staff.

Other principles and procedures concerning corporate governance, as well as target setting as part of achieving the statutory proportion of women pursuant to Section 289a (4) of the German Commercial Code (HGB), are presented in the corporate governance statement, which is reproduced as part of the Corporate Governance Report in this annual report, and is available on the company's website at www.phoenixsolar-group.com under the menu options of Investor Relations and Corporate Governance.

6 COMPARISON OF FORECAST AND ACTUAL BUSINESS PERFORMANCE

After the order book position improved again from the end of the third quarter of the 2014 financial year and several larger projects were acquired in the first quarter of the 2015 financial year, the Executive Board, at the time of publishing the 2014 annual financial statements, forecast significant sales revenue growth to between EUR 140 million and EUR 160 million, and a positive operating result (EBIT) in a range between EUR 1 million and EUR 3 million. The company was thereby aiming for a marked improvement in its results and a return to positive operating results.

While some significant assumptions for the Power Plants segment materialized, we had to recognize that the Components & Systems segment was far from able to reach its targeted share of up to ten percent of consolidated sales revenue. This is generally due to the fact that the business model of trading with components and systems in the solar sector remains under pressure worldwide, and will disappear entirely long-term, at least in the segments for larger, commercial systems, due to very low margins. Specific reasons include the unexpected and marked downturn in the French photovoltaic market, and the need to reorganize management in the Asia/Pacific region, which has caused temporary reductions in operating activities there.

As is well known, the particularities of the project business, as prevalent in our Power Plants segment, entail a certain level of volatility. It cannot be excluded entirely that projects that are well progressed fail to enter the planning and construction phase, that contractually agreed projects are postponed, or that some building approvals experience long delays. The safest way to address these inherent challenges is by raising business volumes to a level where individual delays or omissions do not jeopardize overall target-attainment. To achieve this gradually ranks as one of our targets for the 2016 financial year and coming years.

Three of such incidents occurred in the Power Plants segment in the 2015 financial year, which together cannot be offset in full. For one larger, contractually secured project, no construction approval has been available for some time. In September, investors canceled completely a planned, but not yet agreed, project in the Philippines. This then prompted us on September 18, 2015, to issue an ad hoc announcement downgrading our results forecast to a range between EUR - 1 million and EUR + 1 million, although we left our revenue forecast unchanged. Towards the end of the year, the construction start of three further projects was postponed into the 2016 financial year. As a consequence, the revenues and income from these projects could no longer be realized in 2015.

Internal cost targets were met fully, by contrast: In terms of both personnel expenses and other operating expenses, we improved levels compared with 2014 – as expected and as forecast – although this failed to offset the temporary reductions in gross profit.

As a result, the EUR 119.4 million of consolidated revenues that we actually achieved, and the operating loss before interest and taxes (EBIT) of EUR - 1.6 million, lie slightly below the lower end of the forecast range. Both figures thereby fell short of our expectations despite the strong revenue growth compared with the difficult restructuring year, and despite the high year-end order book position.

The specific key figures reported the following trends:

REVENUES
For the aforementioned reasons, the EUR 119.4 million of revenue that the Group generated was EUR 20.6 million, or 14.7 percent, below our original forecast of EUR 140 million to EUR 160 million.

EBIT
As the gross profit was lower than expected, EBIT of EUR - 1.6 million also fell short of our original forecast of between EUR 1 million and EUR 3 million, and short of our revised forecast of between EUR - 1 million and EUR + 1 million.

EQUITY
As the Group failed to meet its earnings forecast despite significant improvements, consolidated equity again reported a more significant reduction than anticipated, reaching a level of EUR - 7.6 million. We had expected only a slight to modest reduction compared with the a figure of EUR 1.6 million at the end of 2014. Compared with an intra-year low as of June 30, however, consolidated equity recovered again slightly after the two quarters where we generated slight profits.

As the Group does not comprise a legally independent company in itself, no going concern risks arise for the company as a result of its negative equity.

CREDIT LINE UTILISATION
By contrast, the utilization of our overall credit line proved better than forecast. Actual utilization of our lines stood at around 60 percent in 2015, compared with expected utilization of 70 percent. This is attributable to reduced demand for working capital financing and the provision of a guarantee.

NEW ORDER INTAKE
New order intake over the course of the full year was pleasing, although volatile. Contracts worth a total of EUR 267 million were signed, in other words, significantly more than our forecast EUR 120 million to EUR 140 million. Even taking into account the fact that construction approval for a major project has been long outstanding, the new order intake provides a good foundation for further business growth.

Guidance for the financial year 2015

All figures in € m	Actual 2015	Forecast 2015	Actual 2014
Revenues	119.4	140 – 160	33.8
EBIT	– 1.6	1 – 3	– 4.6
Equity	– 7.6	Slightly – moderately declining	– 1.6
Credit line utilisation	Ø 60 %	Ø 70 %	Ø 56 %
Order intake	267	120 – 140	60.0

7 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

The previous year's figures in the segment reporting as well as some of those in the cash flow statement were amended pursuant to IAS 8. Please refer to section 1 in the notes to the consolidated financial statements for more information.

7.1 RESULTS OF OPERATIONS

As the result of focusing successfully on sales and growth, Phoenix Solar generated EUR 119.4 million of consolidated sales revenue in 2015, representing growth of around 254 percent compared with the unsatisfactory course of the 2014 financial year (EUR 33.8 million). Income also improved accordingly.

The operating result (EBIT) was improved compared with 2014 to EUR - 1.6 million, thanks to higher business volumes, and a reduction in personnel expenses and other operating expenses. This compares with a previous-year EBIT result of EUR - 4.6 million. The overall positive trend becomes even clearer when taking into consideration a special effect in the previous year: a loss of EUR - 9.1 million would have arisen at EBIT level in 2014 without the contribution of EUR 4.5 million of income from the disposal of the European O&M business.

The consolidated net result attributable to parent company shareholders stood at EUR - 5.6 million (2014: EUR -10.2 million). This corresponds to a loss per share of EUR 0.71 (2014: loss per share of EUR 1.38).

Development of Revenues by Segment and Region 2011 – 2015

		2015	2014	2013	2012	2011
Consolidated revenues	€ m	119.4	33.8	141.2	155.4	393.5
Change from prior year	%	253.3	– 76.1	– 9.1	– 60.5	– 38.1
C & S revenues	€ m	6.0	17.3	56.7	72.4	241.0
Change from prior year	%	– 65.9	– 69.5	– 21.7	– 70.0	– 34.6
Power Plant revenues	€ m	113.4	16.5	84.5	83.0	152.5
Change from prior year	%	587.9	– 80.5	1.8	– 45.6	– 44.8
Domestic revenues	€ m	0.3	3.0	16.7	16.7	168.5
Change from prior year	%	– 90.0	– 82.0	– 0.2	– 90.1	– 64.2
EU revenues, excl. Germany	€ m	4.1	12.7	33.2	33.2	187.9
Change from prior year	%	– 67.7	– 61.7	0.0	– 82.3	15.8
RoW revenues	€ m	115.0	18.0	91.4	105.5	37.1
Change from prior year	%	538.9	– 80.3	– 13.4	– 184.4	1,586.4

7.1.1 REVENUE ANALYSIS

The Phoenix Solar Group delivered and installed modules with a cumulative net output of 98.7 MWp in the 2015 financial year (2014: 28.9 MWp).

From this, we generated EUR 119.4 million of sales revenue over the full course of the 2015 financial year. This corresponds to marked revenue growth of around 253 percent, or of EUR 85.6 million compared with the previous year's EUR 33.8 million. Almost all of this revenue is attributable to foreign markets served mainly (92 percent) by our foreign subsidiaries.

The strongest region in terms of sales revenues was the USA with an 82.1 percent share (2014: 20.8 percent), followed by Asia/Pacific at 7.3 percent (2014: 29.8 percent), and the Middle East at 7.0 percent (2014: 2.5 percent). In the 2014 financial year, both regions were still reported on an aggregated basis, jointly reaching a 32.2 percent share.

A share of 5.0 percent (2014: 58.3 percent) of total revenues was attributable to the Components & Systems segment, while 95.0 percent (2014: 41.7 percent) was attributable to the Power Plants segment.

7.1.2 GROUP ORDER BOOK POSITION

In the past, we have focused our order book position reports on an order book position that also includes sales revenues that have already been realized. In the interests of greater transparency, we have focused our reporting on our "free" order book position since the first quarter of 2015. This refers to those order components that have been contractually secured but not yet invoiced. In other words, the free order book position describes – in a simplified manner – sales revenue that can be realized in the future.

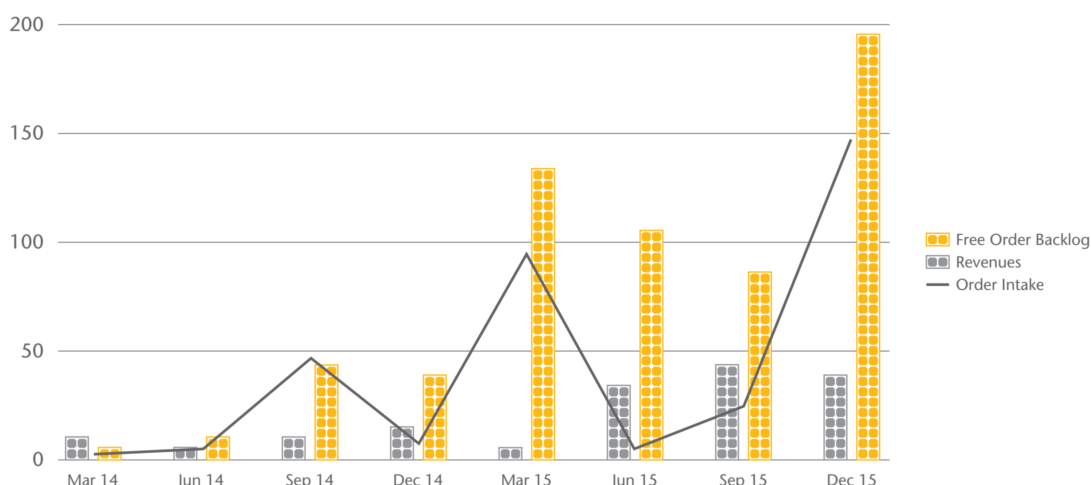
As of December 31, 2015, we reported a Group free order book position of EUR 195.7 million (December 31, 2014: EUR 36.3 million). Some of the consolidated revenues planned for 2016 are thereby already secured through existing orders, although for one of the orders in the free order book position the construction approval has been outstanding for some time, and is consequently not included in the forecast.

In the Power Plants segment, the free order book position was up from EUR 34.0 million December 31, 2014 to EUR 194.3 million December 31, 2015, representing an increase of EUR 160.3 million. This figure primarily includes several large orders from the USA, on which processing had already started during the course of the first quarter.

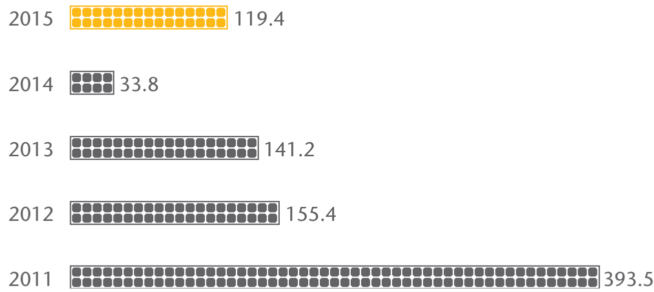
The Components & Systems segment, by contrast, registered a further decline in its free order book position to EUR 1.4 million (December 31, 2014: EUR 2.3 million).

The Group's total order book position (including already invoiced sales revenues) amounted to EUR 299.2 million as of December 31, 2015 (December 31, 2014: EUR 46.2 million).

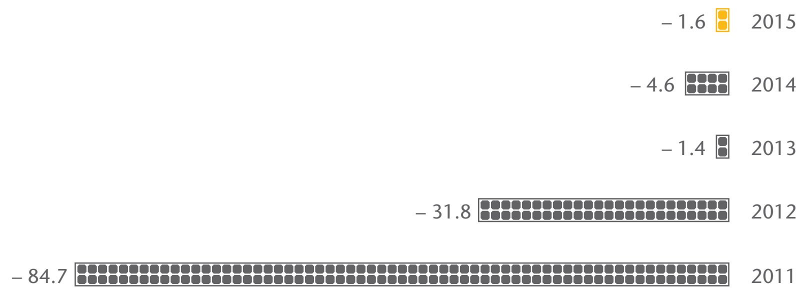
Order book an revenue development 2014 – 2015 in € m



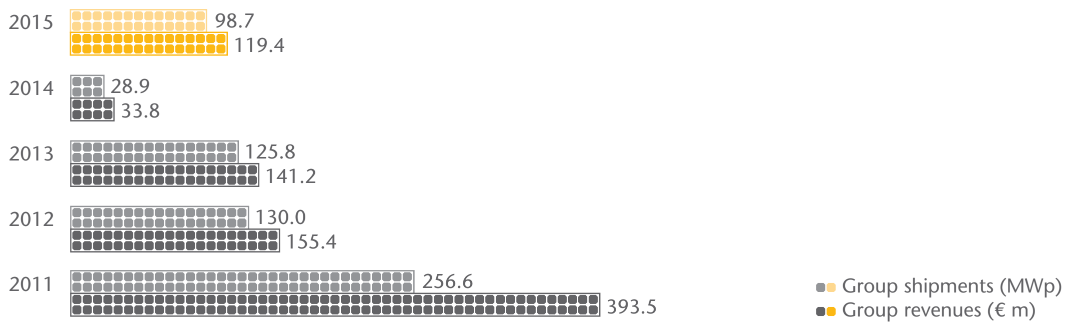
Revenues 2011 – 2015 in € m



EBIT 2011 – 2015 in k€

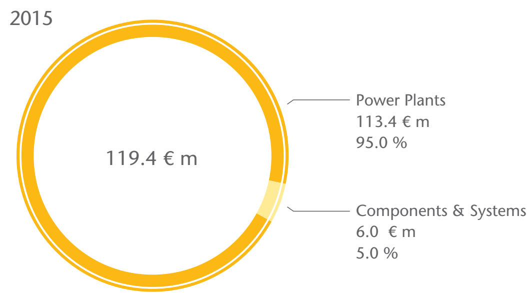


Revenues and shipments 2011 – 2015 in € m

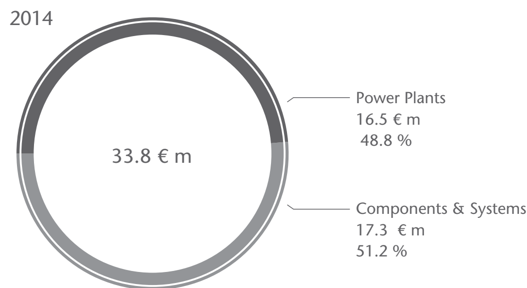


Revenues by segments

2015

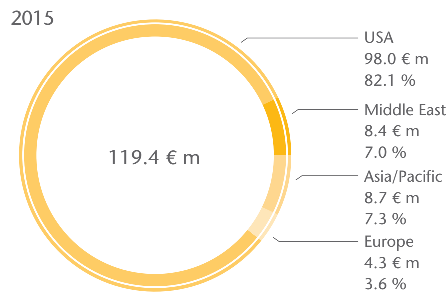


2014

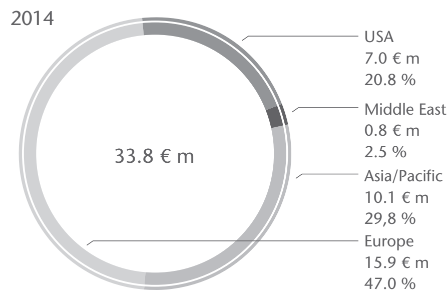


Revenues by region

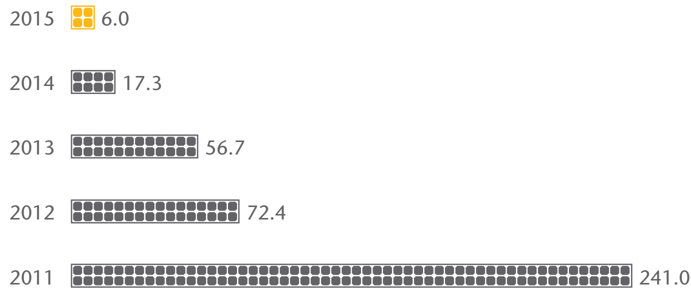
2015



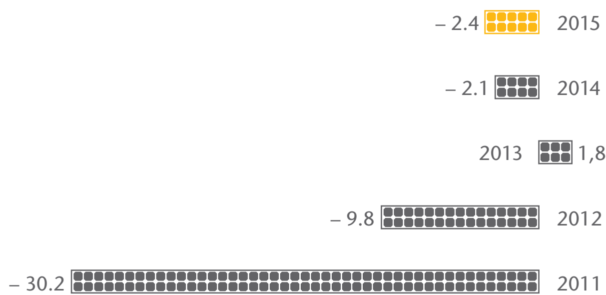
2014



Revenues Components & Systems 2011 – 2015 in € m



EBIT Components & Systems 2011 – 2015 in € m



7.1.3 SEGMENT TRENDS

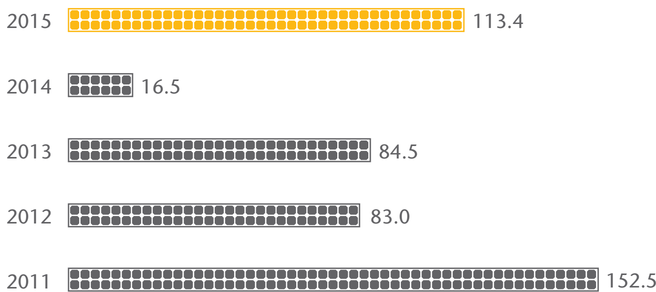
Components & Systems

The Components & Systems segment realized EUR 6.0 million of revenues in 2015 (2014: EUR 17.3 million). The reduction arises mainly from significantly weaker business in France and this segment's falling proportion of sales revenue in Asia/Pacific. The Components & Systems segment generated negative EBIT to the tune of EUR - 2.4 million in the 2015 financial year (2014: EUR - 2.1 million).

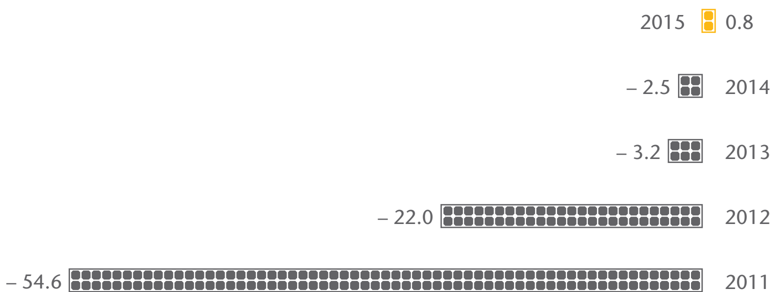
Power Plants

In the Power Plants segment, by contrast, we reported a significant expansion of our business. Here, we reached EUR 113.4 million of sales revenues, with this segment thereby up sixfold, or by EUR 97.0 million compared with the previous year (2014: EUR 16.5 million). The Power Plants segment generated EBIT of EUR + 0.8 million (2014: EUR - 2.5 million).

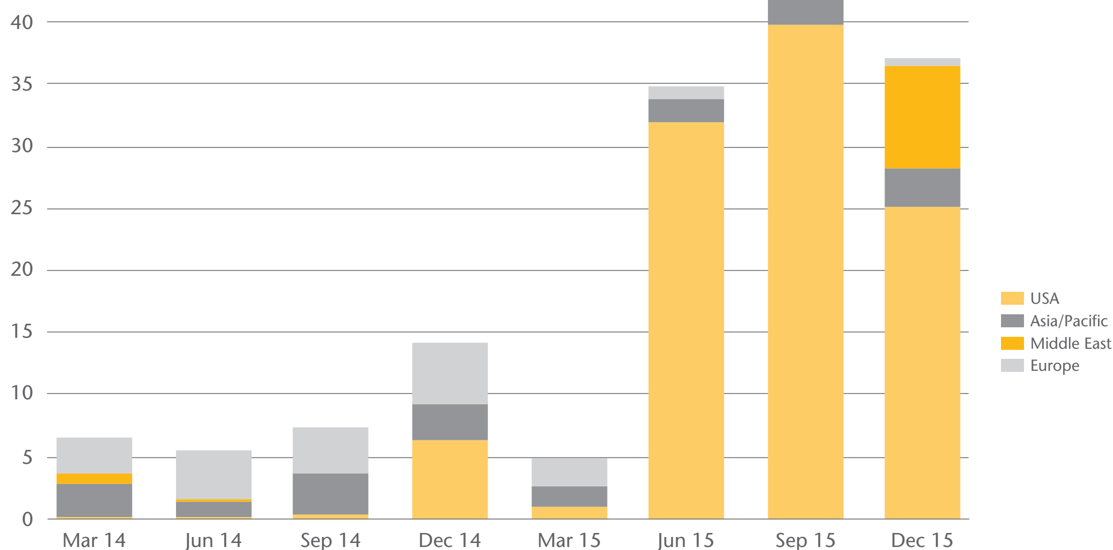
Revenues Power Plants 2011 – 2015 in € m (including O&M business)



EBIT Power Plants 2011 – 2015 in € m (including O&M business)



Revenues by region 2014 – 2015 in € m



7.1.4 TRENDS IN KEY INCOME STATEMENT ITEMS

Other operating income

Other operating income in the 2014 financial year included, among other items, EUR 4.5 million of disposal proceeds for the European business entailing the operating and maintenance of photovoltaic power plants. This boosted other operating income to EUR 11.7 million in the 2014 financial year, compared with EUR 5.3 million in the 2015 financial year. This mainly includes EUR 2.2 million of electricity income from the company's own photovoltaic plants (2014: EUR 2.1 million). This item also includes EUR 0.7 million of income from our subsidiary Scarlatti S.r.l., Eppan an der Weinstrasse, Italy. from the revaluation of the project rights at four project companies in Sicily, EUR 0.3 million of income from the release of warranty provisions, approximately EUR 0.3 million of income from having won proceedings on appeal, and EUR 0.1 million of income from the derecognition of specific valuation allowances.

Cost of materials/gross profit

Due to considerably more intensive operating activities, the cost of materials increased to EUR 109.4 million (2014: EUR 28.1 million). Gross profit (sales revenues less cost of materials) improved to EUR 10.0 million (2014: EUR 5.7 million). In terms of the gross profit margin (gross profit as a percentage of sales revenue; 8.4 percent in 2015 compared with 17.0 percent in 2014), it should be noted that 2014 still included the highly profitable European business entailing operating and maintaining photovoltaic power plants (O&M), whose share was especially evident given the weakness at that time of project business sales revenues. As reported, this area was divested during the course of the 2014 financial year.

Personnel expenses

As of December 31, 2015, the Phoenix Solar Group employed a workforce of 79 staff (excluding Executive Board members but including temporary staff; previous year: 96), 77 of whom in permanent positions (December 31, 2014: 93). This further reduction is mainly due to the job cuts in Germany as a result of discontinuing the new business models at the time of the start of the 2014/2015 new year. On a year-average basis, this consequently compares to around 85 full-time equivalents (excluding Executive Board members but including temporary staff; 2014: 110). Due to the sharp growth in revenues, the key performance indicator of revenues per full-time equivalent reported a marked increase from kEUR 307 in the previous year to EUR 1.4 million.

Personnel expenses amounted to at EUR 7.6 million in 2015 (2014: EUR 9.6 million), reflecting a decline of 20.1 percent. The company incurred EUR 0.3 million of expenses for severance payments in the 2015 financial year (previous year: EUR 0.5 million).

Depreciation, amortization and impairment

Depreciation, amortization and impairment fell by EUR 0.2 million year-on-year to EUR 1.4 million (2014: EUR 1.6 million). The reduction is predominantly due to the spin-off of the O&M business and the relinquishing of the Ulm site.

Other operating expenses

Due to the conclusion of the restructuring phase, other operating expenses fell by approximately EUR 3.0 million to EUR 7.9 million in the 2015 financial year (2014: EUR 10.9 million), reflecting a 27.6 percent reduction. In the main, almost all items of other operating expenses reported a reduction. The greatest cost-savings were achieved among legal and consulting costs, value allowances applied to receivables, and relating to vehicle costs and travel costs, among other areas. Cost increases occurred in only isolated cases.

Income from associated companies

Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a 31.2 percent interest, has been equity accounted as an associated company since the 2009 financial year. The share of this company's profit which is attributable to the Phoenix Solar Group amounted to kEUR 24 in 2015 financial year (2014: kEUR 39).

Result before interest and taxes (EBIT)

The Group incurred a loss before interest and taxes (EBIT) of EUR - 1.6 million in the 2015 financial year. This represents a marked improvement of EUR 3.0 million compared with the previous year's equivalent figure (2014: EUR - 4.6 million). This earnings improvement would have been even more evident if the EUR 4.5 million of one-off income from the divestiture of the O&M business had been excluded from the 2014 result. The EBIT margin improved markedly from - 13.7 percent in 2014 to currently - 1.3 percent.

Financial result

The net financial result of EUR - 4.4 million in 2015 was better than in the previous year (2014: EUR - 5.1 million). Financial income of kEUR 98 (2014: kEUR 146) was offset by financial expenses of EUR 4.5 million (2014: EUR 5.3 million). Of these financial expenses, EUR 2.1 million derived from interest and similar expenses (2014: EUR 2.4 million), and EUR 1.2 million from financing costs (2014: EUR 1.9 million). Expenses for bill guarantee fees stood at EUR 1.1 million (2014: EUR 1.0 million).

Tax rate

At EUR 0.3 million, the tax expense in the 2015 financial year was EUR 0.7 million lower than in the previous year (2014: EUR 0.4 million). Accordingly, the tax rate (ratio tax expense to consolidated pretax earnings) amounted to - 5.3 percent (2014: 4.4 percent).

Consolidated net profit/loss

As a consequence, the consolidated net loss attributable to parent company shareholders amounted to EUR - 5.2 million in 2015 (2014: EUR - 10.2 million). A consolidated net result of EUR - 0.4 million was attributable to minority interests (2014: kEUR - 3). Calculated on an average number of 7,372,700 shares, the basic result per share stood at EUR -0.71 (2014: EUR - 1.38). Since no material dilutive effects existed as of 31 December 2015, only a slight difference occurs between diluted earnings per share and basic earnings per share.

7.2 FINANCIAL POSITION

7.2.1 PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

As in previous years, financial policy continued to enjoy central significance in 2015. Along with continued close management of liquidity, the focus was on detailed cost management. In parallel, the company also continued the process of collecting long outstanding receivables.

7.2.2 DEBT FINANCING

After the end of the 2015 financial year, on March 18, 2016, the company announced the conclusion of an agreement with its financing banking syndicate, whereby its credit lines are extended in modified form until September 30, 2018. As a consequence, and as in the previous year, the corresponding financial liabilities continue to be presented as non-current financial liabilities. Compared with the previous year, non-current financial liabilities rose slightly by EUR 0.5 million to EUR 39.1 million (December 31, 2014: EUR 38.6 million). Of the committed cash credit lines, EUR 3.2 million were available as of December 31, 2015 (December 31, 2014: EUR 7.2 million), and a further EUR 10.3 million were available for short-term requirements (December 31, 2014: EUR 10.6 million). The line for short-term requirements was adjusted proportionally to the total lending volumes that had been reduced overall.

7.2.3 CASHFLOW FROM OPERATING ACTIVITIES

The cash inflow from operating activities amounted to EUR 1.8 million in 2015 (2014: cash outflow of EUR 8.5 million). Compared with the previous year, the lower level of losses and significant accrual of operating liabilities resulted mainly in positive operating cash flow effects. This was offset by a higher level of prepayments rendered and a higher level of receivables due from long-term construction contracts. By contrast, interest paid fell from EUR 0.3 million in 2014 to EUR 1.0 million, and income taxes paid reduced to EUR 3.9 million (2014: EUR 4.5 million).

7.2.4 CASHFLOW FROM INVESTING ACTIVITIES

Due to the nature of its operating activities, the Phoenix Solar Group’s business model does not generally require significant investing activities. The cash outflow from investing activities of EUR 0.2 million was at a lower level than in the previous year (2014: EUR 3.9 million). In the 2014 financial year, the EUR 4.5 million proceeds from the disposal of the O&M business were recognized as cash inflow from investing activities. No investment obligations existed as of December 31, 2015, as was also the case as of December 31, 2014.

7.2.5 CASHFLOW FROM FINANCING ACTIVITIES

Cash flow from financing activities in 2015 was almost at net breakeven. Drawdowns of borrowings of EUR 0.5 million were offset by EUR 0.4 million of commissions paid on the syndicated loan. In the 2014 financial year, a cash outflow of EUR 2.1 million was incurred on financing activities, mainly due to EUR 1.7 million of debt repayment.

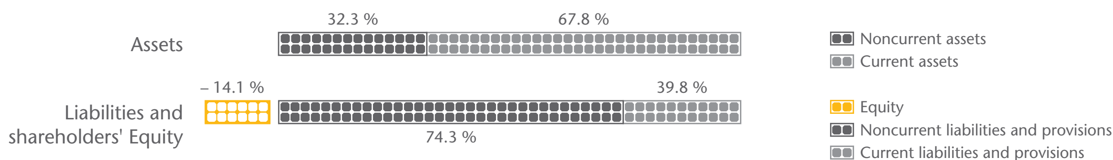
7.2.6 CHANGE IN CASH AND CASH EQUIVALENTS

The Phoenix Solar Group's cash and cash equivalents increased overall by EUR 1.8 million to EUR 4.9 million in the 2015 financial year (December 31, 2014: EUR 3.1 million). No liquidity shortfalls occurred in the 2015 financial year. The 2015 liquidity trends and liquidity position as of December 31, 2015 lead to the expectation that the Group will remain in a position to fulfill all its payment obligations. Furthermore, the existing Group financing fully secures the payments planned in the currently valid budget. Provided that business continues to develop in line with expectations in 2016, no liquidity shortfalls are foreseeable.

7.3 NET ASSETS

All figures in € m	12/31/2015	12/31/2014
Assets	**53.4**	**45.2**
Non-current assets	17.3	17.9
of which deferred tax assets	1.9	1.3
Current assets	36.1	27.3
of which inventories	2.0	2.1
of which receivables under long-term construction contracts	6.5	1.0
of which trade receivables	9.9	10.4
of which cash and cash equivalents	4.9	3.1
Equity and liabilities	**53.4**	**45.2**
Equity	– 7.6	– 1.6
Non-current liabilities and provisions	39.7	39.3
of which deferred tax liabilities	0.0	0.0
Current liabilities and provisions	21.3	7.5
of which trade payables	9.5	2.5

Balance structure 12/31/2015



The total assets of the Phoenix Solar Group stood at EUR 53.4 million on December 31, 2015 (December 31, 2014: EUR 45.2 million), corresponding to a decrease of 18.1 percent.

On the assets side of the balance sheet, the higher level of total assets reflects not only the strong business growth, but also especially the increase in receivables due under long-term construction contracts, which grew by EUR 5.5 million to EUR 6.5 million (December 31, 2014: EUR 1.0 million), prepayments rendered of EUR 4.9 million (December 31, 2014: EUR 0.0 million), and a EUR 1.8 million higher level of cash and cash equivalents as of the reporting date (December 31, 2014: EUR 3.1 million). This was offset by a EUR 2.2 million reduction in other non-financial assets to almost EUR 4.2 million (December 31, 2014: EUR 6.4 million). This is mainly a consequence of EUR 1.8 million VAT reimbursed for our subsidiary in Greece. Other financial assets reduced by EUR 0.6 million to EUR 3.0 million (December 31, 2014: EUR 3.6 million). For more information, please refer to the consolidated statement of changes in non-current assets (section 16) in chapter D of the notes to the consolidated financial statements.

As a result of the consolidated net loss, the Group's equity fell by EUR 6.0 million to EUR - 7.6 million (December 31, 2014: EUR - 1.6 million). Accordingly, the equity ratio stood at - 14.1 percent as of December 31, 2015 (December 31, 2014: - 3.5 percent).

As the Group does not comprise a legally independent company in itself, no going concern risks arise for the company as a result of its negative equity. Solely the equity of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code [HGB]), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 6.6 million as of December 31, 2015, equivalent to a 12.3 percent equity ratio (December 31, 2014: EUR 11.0 million, equivalent to a 20.0 percent equity ratio).

Borrowed capital stood at EUR 61.0 million, up by EUR 14.2 million (December 31, 2014: EUR 46.8 million), which was largely attributable to a business-led buildup of current liabilities (trade payables and liabilities arising from long-term construction contracts) of EUR 15.3 million to EUR 18.1 million (December 31, 2014: EUR 2.8 million). This was offset by a EUR 0.9 million reduction in current provisions to approximately EUR 0.5 million (December 31, 2014: EUR 1.5 million). Non-financial liabilities of EUR 1.5 million were also EUR 0.7 million lower (December 31, 2014: EUR 2.2 million). Net debt amounted (long-term financial liabilities less cash funds) to EUR 34.2 million as of December 31, 2015 (December 31, 2014: EUR 36.6 million).

8 GUIDANCE, REPORT ON OPPORTUNITIES AND RISKS

Photovoltaics is, and remains, a means of generating energy that enjoys great future potential. In the medium and long term, the goals of climate protection and the transformation of Germany's energy system can be achieved only 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. We orientate our business strategy at developing and successfully implementing viable business models for these markets, under the changing conditions that we describe in section 4.

Photovoltaics will continue to gather growth momentum for the foreseeable future in the regions that we address. Newbuild plant capacities in the Middle East are set to experience compound annual growth of 73 percent, growing from their low level in 2014 to reach 2.9 GWp by 2020. In Asia/Pacific, growth is forecast at 30 percent (CAGR) to 3.2 GWp over the same period, and in North America at 21 percent annually to reach 12.6 GWp.

With a look to 2016, we anticipate significant growth overall in newly installed photovoltaic capacity to 13.4 GWp in the target markets that we reach and are relevant to us (2015 add-on build: 8.5 GWp). In the target markets that we address, we anticipate marked growth in newly installed photovoltaic capacity in 2016. If we observe solely the market segments included in our business model, around 9 GWp is to be newly built in the USA, 1.4 GWp in our target markets in Asia/Pacific, 1.1 GWp in the Middle East, and around 1.3 GWp in our European markets (France, Greece, Spain) together.

8.1 STRATEGY

Our strategy for 2016 focuses on continuing and intensifying our organic growth. After our clear focus on the USA as our decisive core market during the 2015 financial year, in the 2016 financial year we will also further develop our two growth regions of Asia/Pacific and the Middle East to a greater extent. We are maintaining our presence on European markets, by contrast, and will seize business opportunities on offer there.

We continue to identify robust demand for high-quality EPC services on our market – our references for constructing high-performing photovoltaic power plants at competitive prices to deadline and to budget make us a suitable partner for investors and operators. Being limited to our existing business model and existing target markets cannot prove satisfying in the medium and long term, however.

The Executive Board and the entire Group are focusing on the following tasks as part of implementing and continuing the existing strategy plan:

- Central focus on acquiring profitable projects and consistent expansion of the global project pipeline
- Further strengthening of our market position in the three regions of North America, Middle East and Asia/Pacific
- Defining and implementing various measures as part of the global supply chain in order to reduce system prices per MWp by 6 to 8 percent annually, thereby sustainably securing our profitability and competitiveness
- Ongoing improvements to the process organization in order to operate as efficiently as possible internally, and promote the exchange of respective best practices between our operating units
- Organizational development and strengthening of the global team

Central management tasks include taking specific markets' different conditions into account within a differentiated and country-specific sales approach. Underpinning our growth on our strongest regional market, the USA, through further successful reference projects will constitute a key factor for the entire Group's business success in this regard.

We have expanded our presence in Asia/Pacific through founding a subsidiary in the Philippines. The new management in the region faces the task of consistently exploiting market opportunities on offer, and restoring their share of the Group's success and profitability.

We are confident that we can secure and expand our successful cooperation with local partners in the Middle East, and continue to grow with new projects within the region.

Business in Europe will prospectively remain weak in 2016. Including under continued difficult market conditions and given a reduction in personnel capacities, our subsidiaries will nevertheless seek new opportunities to generate additional business.

Our planned strong organic corporate growth also presupposes that the capacities required for this are available.

As announced at our 2015 AGM, the Executive Board is also working on options to further secure and expand Phoenix Solar's market position. The focus here is both on occupying further steps of the value chain, and on entering new markets, preferably in proximity to already existing activities. We carefully review opportunities to expand our business in this direction, partly with the help of external advisers. We only pursue such options further if commercial judgment suggests the available opportunities outweigh the identified risks.

Our baseline scenario assumes that we cannot generate revenue and earnings from such projects in this financial year, however.

Such strategic ideas will in any instance only be implemented to the extent that it proves possible to realize the baseline scenario growth path, and secure the requisite funding resources.

8.2 GUIDANCE IN THE BASELINE SCENARIO

Quite apart from our strategic further development, our guidance for the 2016 financial year envisages a continuation of organic growth. Based on our business model, our further improved positioning, especially in the core market in the USA, and thanks to our consistent orientation to highly professional sales processes, we are able to benefit and profit from growing demand for high-performance photovoltaic systems, and report significant growth in terms of both revenue and results. Our 2015 financial year provided evidence of this.

As already last year, the Components & Systems segment's share of growth and volumes will continue to play a minor role in 2016. We expect that this segment will again comprise a maximum of 3 to 5 percent of total revenues. In our Components & Systems segment, we continue to anticipate sales revenues generated mainly in Asia/Pacific and Europe.

In the Power Plants segment, we again assume very significant revenue growth compared with 2015. We expect the strongest volume in the USA, where we aim to increase our sales of newly installed MWp in the triple-digit range. We also plan double-digit figures in terms of MWp sold in our growth regions of Asia/Pacific and the Middle East, however.

The basic assumption underpinning this forecast is, firstly, continued market growth in these three target markets. As explained in section 4, our subsidiaries in these countries have strategic partners and experienced teams that all command very good networks, proven track records, good references and a sound reputation. By way of reference, they have successfully installed a total of more than 800 MWp of high-performance photovoltaic systems. This qualifies them to actively acquire projects and seize opportunities to pitch for both smaller and larger projects and translate them into business. We consequently anticipate that these units are well positioned to expand with the market and even achieve above-average growth. Our high order book position at the start of the year, which already covers large parts of our planned sales revenues, gives us particular confidence that we will attain our targets.

If these basic assumptions materialize as we expect in our segments and in our target markets, the Group can then realize significant revenue growth again in the 2016 financial year. Growth of at least 50 percent would correspond to a range between EUR 180 million and EUR 210 million (2015: EUR 119.4 million). This will prospectively necessitate sales of between 150 MWp and 175 MWp (2015: 98.7 MWp).

Nonetheless, cost increases compared with the reporting year will not be as fast as topline growth. Without relinquishing the principle of a streamlined and powerful organization, it will be especially necessary to add further personnel capacities. Although we currently anticipate no extraordinary burdens, we expect expenses particularly from the area of capital market communication and financing activities. Against this backdrop, we assume that we will generate earnings before interest and taxes (EBIT) of between EUR 2 million and around EUR 4 million (2015: EUR -1.6 million).

The financing agreement that was concluded in 2012, and which was most recently extended until September 30, 2018 in a modified scope with an agreement dated March 18, 2016, covers the company's financing needs in full, based on our organic growth planning. The Group's financing is secured until September 30, 2018, as long as no significant deterioration occurs to the company's business trends and asset position, and no other events occur that might result in the termination of the agreements.

Despite this – and given stable financing until 2018, as well as planned free credit lines for 2016 averaging around 35 percent, entailing corresponding financing expense – we cannot yet anticipate the company being able to generate a significantly positive result. For this reason, the consolidated equity level and the Group equity ratio will remain negative over the course of the 2016 financial year, although they will not fall further. We anticipate that equity will then tend to rise towards positive levels.

Guidance for the 2016 financial year

All figures in € m	Forecast 2015	Actual 2015
Revenues	180 – 210	119.4
EBIT	2 –> 4	– 1.6
Equity	Slight improvement	– 7.6
Credit line utilization	Ø 65 %	Ø 60 %
Order intake	160 – 190	267

The possibility of exploiting opportunities extending above and beyond this baseline scenario depends on any additionally required financing resources, among other factors. This option, and the necessity of gradually also strengthening the equity backing of the company and Group again, form the topic of further Executive Board deliberations.

RISKS AND OPPORTUNITIES

Our plans could be hampered or, conversely, favored by various external and internal factors, however. 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 an internationally operating company, 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 business and financial success and profitability necessarily entails both opportunities and risks, our risk strategy takes both elements into account. This means that we enter quite intentionally into manageable and calculable risks in the area of our core competencies, if they lead to the expectation of appropriate returns. Risks in other areas are to be avoided, as a matter of principle, with no decision or action being allowed to entail a going concern risk.

8.4 OPPORTUNITY AND RISK MANAGEMENT SYSTEM

The Group's risk and opportunity management system is designed to identify individual risks, to present them in a transparent manner, and to determine ways of managing them appropriately. Aside from going concern risks, we also monitor the activities, events and developments that could have a significant influence on future business success and profitability. The corresponding goals and procedures, and the division of responsibilities within the risk management system, are documented in the risk management handbook. A group of risk officers appointed to key functions utilize a standardized risk inventory list in order to report existing, newly identified and potential risks to the risk manager on a regular basis. Each individual risk is classified according to the criteria of event risk and potential loss amount. In addition, the risk officers define countermeasures to exert a positive influence on the aforementioned parameters. The risk manager analyses, assesses and documents all such risks at regular intervals (generally on a monthly basis), and informs risk officers at regular risk committee meetings. The Chief Financial Officer of Phoenix Solar AG currently acts as the risk manager. At the risk committee meetings, the risk manager reviews both the risk assessment and related countermeasures. If the expected potential loss from aggregated risk reaches a certain a critical threshold, the risk manager also informs the Supervisory Board about the Group's current risk position. In addition to this, the Executive Board adopts the standard practice of reporting on the Group's current risk position to the Supervisory Board telephone conferences and meetings.

To the extent that it is available and financially viable, insurance cover has also been taken out to keep the financial effects of a potential loss as low as possible. The extent and amount of such insurance policies are reviewed continuously.

8.5 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE GROUP FINANCIAL ACCOUNTING PROCESS

Our internal control and risk management system in relation to the (Group) financial accounting process is designed to ensure that our financial accounting system is uniform, and compliant with applicable laws and regulations, generally accepted accounting principles in Germany, and 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 principle of 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 deputization arrangements, as well as signature rules, are reviewed to verify that they are complete and up to date.

Along with regular system-technical controls, manual controls and analytical reviews are also performed. These take the respective controlling environment into account, as well as the relevance of accounting matters in relation to disclosures made in the financial statements.

The process of preparing the consolidated financial statements is based on uniform Groupwide accounting policies. The Group companies first prepare their separate financial statements in accordance with the national laws and regulations applicable to them. They then convert their local financial statements to IFRS accounting standards, and submit the corresponding data to the Group accounting function in a uniform, pre-defined reporting package. The Group accounting function then utilizes the data to perform the consolidation processes. The Group companies are required to comply with accounting regulations, and are responsible for ensuring that their accounting-related processes and systems function properly and on time. The Group accounting function supports the Group companies throughout the entire accounting process.

8.6 SUMMARY OF THE RISK POSITION

As part of our risk management system, three specific risks are categorized as "significant" as of December 31, 2015: namely, the risk attached to Group financing, the risk from the sales and project business abroad, and the risk entailed in the erosion of half of the parent company's equity.

The risk of Group financing continues to be classified as "moderate".

Measures are available to the company to allow the Executive Board to counteract any potential erosion of the parent company's equity. This risk is nevertheless currently guaged as "significant", with the potential loss amount being classified as "moderate".

In 2015, the risks pertaining to the sales and project business abroad reduce significantly compared with 2014, by contrast. Very different business trends in our regions are nevertheless demand the uninterrupted attention of the Executive Board, justifying continued categorization of the risk as "significant" accompanied by a "moderate" event risk.

"Quality and capacity risk", which was newly included in risk management and categorized as "moderate", reflects the increased challenges deriving from the strong business growth during the past and present financial years.

In the estimation of the Executive Board and to the best of our current knowledge, the risks to which we are thereby exposed are manageable. The Phoenix Solar Group was not jeopardized by any going concern risk as of the date when this report was prepared. This assessment applies to both the individual companies and the Group. As part of our risk management system, only three specific risks are categorized as "significant": namely, the risk attached to Group financing, the risk from sales and from project business abroad, and the risk entailed in the erosion of half of the parent company's equity. Further consideration of the three risks has resulted in each of them 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	low	moderate	Management reviews
8.7.4. Political and regulatory influencing factors	low	low	moderate	low	Management reviews
8.7.5. Market, competition and external influencing factors	low	moderate	low	low	Management reviews
8.7.6. Purchasing and inventories	low	low	low	low	Risk management system
8.7.7. Currency risks	moderate	moderate	moderate	low	Risk management system
8.7.8 Erosion of half of the parent company's equity	significant	moderate	moderate	moderate	Monthly Monitoring
8.7.9 Quality and capacity risk	moderate	moderate	low	moderate	Management reviews
8.7.10 Other risks	low	moderate	moderate	low	Risk management system

8.7 SPECIFIC RISKS

8.7.1 GROUP FINANCING

The syndicated loan that was extended in March 2016 until September 30, 2018 with a reduced volume covers – in combination with other bilateral financing arrangements – the financing requirement over its duration that was calculated as part of planning.

The agreement no longer contains any financial covenants since it was extended in November 2014. Extraordinary termination is possible due to a significant worsening of asset ratios or the business position – as is usual in such agreements, and which was also already included in previous versions. Such a deterioration would put the company's continued existence at jeopardy.

The company's management assumes on the basis of current business trends that the company's solvency is secured during the term of the syndicated loan. This is also especially justified on the basis of the conservative assumptions relating to cash inflows and outflows in the underlying corporate planning.

Securing the Group's financing remains a significant Executive Board task, including after the extension of the syndicated loan and bilateral loans that was agreed with the banking syndicate in March 2016.

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 by focusing firstly on the EPC business. This business is typically financed through bridging loans for construction, which reduces the need for liquidity. In many cases, customers submit prepayments and contract satisfaction guarantees in order to provide cover. The current business plan, which has been coordinated with the lenders, provides for adequate guarantee lines for this purpose. In the course of further business developments and trends, however, particularly with respect to major projects and possible overlaps between them, it might transpire that the available guarantee lines are insufficient to cover the Group's requirements. It might then also prove impossible to exploit revenue and earnings potentials. We seek to lower this risk through close coordination with the subsidiaries and through consistent credit guarantee management.

8.7.3 INTERNATIONAL SALES AND PROJECT BUSINESS

The Phoenix Solar Group enjoys an international presence through its subsidiaries on three continents. As in the previous year, the new strategic orientation will continue to result in a high degree of dependency by the Group on these markets over the coming years, and on the earnings contributions generated by the subsidiaries there. If projects in the multimegawatt range fall below sales planning as calculated on full-year basis, this could result in a considerable shortfall against consolidated revenue planning, leading to corresponding earnings loss. We counteract this risk through close coordination with the subsidiaries by way of a standardized reporting line with monthly, and even some weekly, management reviews and other regular monitoring measures geared to the sales situation of the companies. We professionalized sales processes further in 2015. In addition, the company will continue to work on improving sales processes, and on exploiting the experience made in relation to project lead times and the effects of project delays, in order to thereby minimize risk. This allowed this risk to be reduced, as far as event risk and effects were concerned – it nevertheless remains significant given our focus on international markets, and is monitored constantly by the management. Whether the Phoenix Solar Group succeeds in concluding the significant planned project orders on time, and achieving the planned sales revenue contributions, nevertheless remains a considerable risk for the company.

The primary focus on countries outside the European Union also poses a heightened risk due to the Group's involvement in various legal and political systems, as well as currency zones. Misjudgments of legal and economic conditions, and resultant unpredictable cost burdens, are possible, as a matter of principle. We counter such risk through a defined approvals process for projects exceeding a certain dimension. Executing photovoltaic power plant construction projects in foreign countries is also sometimes subject to greater risks than in Germany. In order to identify and counter these risks at an early stage, especially in the case of major projects, standardized risk reports are prepared in the context of monthly reporting. Nonetheless, delays and higher costs compared with original planning that might 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 2016 in terms of the extent to which they are fostered or hampered by legislation. The returns that can be achieved by new photovoltaic systems are negatively affected by long-term legislative degression models, as well as unannounced and occasionally radical changes in legislative frameworks, and intervention that impairs confidence and fails to protect installed capacity. The resultant uncertainty on the part of investors and operators can cause markets to stagnate, or even contract.

On Asian markets, we are confronted by a wide variety subsidy systems and framework conditions. In some target countries, doubts are also appropriate as to the extent to which governments can consistently maintain the subsidy programs that they have approved.

In the USA, too, important differences exist between individual states in relation to the significance attached to renewable energy sources and how they are treated from a regulatory standpoint. To counter the risk of misallocating resources, our US subsidiary relies on a network of cooperation partners to identify suitable target markets.

Particularly on the basis of very different regulations prevailing in individual states in these regions, however, our subsidiaries are sufficiently diversified to allow us to assume that we need not fear any revenue losses within the Group due to political and regulatory risks there.

The political situation in the Middle East region harbors particular risks insofar as an expansion of armed conflict in Syria and Iraq could negatively affect our current main sales areas in Jordan and Turkey, or bring their operations to a standstill. Here, too, further regional diversification plays an important role in mitigating the consequences of such risk arising.

8.7.5 MARKET, COMPETITION AND EXTERNAL INFLUENCING FACTORS

Competitive and margin pressure is correlated with the extent to which photovoltaics becomes attractive as a business area to new providers in markets that are still growing. On the one hand, large producers that are frequently unprofitable in their core businesses are endeavoring to expand into the power plant construction area. On the other hand, the total number of providers has increased further, despite the difficult environment. We are countering this situation through further developing our offering policy and range, as well as through improving our cost positions. Long-term strategic partnerships also reduce such risk.

If we were to achieve lower gross margins than budgeted due to rising competition, this would be likely to worsen Group profitability accordingly. Given the company's streamlined positioning following last year's restructuring efforts, further savings would probably only partially offset such a decline, unless we succeeded in passing margin pressure on to our suppliers.

8.7.6 PURCHASING AND INVENTORIES

By contrast, the risk of needing to implement a higher level of write-offs as the consequence of falling module prices has declined significantly following the winding down of our stocks in Germany, and the decentralization and flexibilization of purchasing, and can meanwhile be regarded as minimal. The close monitoring of all subsidiaries, accompanied by stringent inventory management standards, comprise 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 has increased this risk. Especially the US dollar exchange rate plays a particular role, in so far as 82 percent of consolidated revenue was generated in this currency in the 2015 financial year. We limit currency risks by optimizing operational cash inflows and outflows. Further currency risks are generally hedged by means of hedging instruments, such as forward currency transactions and currency options. The Phoenix Solar Group had forward currency transactions with a volume of EUR 4.4 million as of the December 31, 2015 reporting date (December 31, 2014: EUR 2.6 million).

8.7.8 EROSION OF HALF OF THE PARENT COMPANY'S EQUITY

As a separate company, Phoenix Solar AG is tending not to generate any revenues, or only low revenues, due to the strategic reorientation in Germany, while at the same time bearing costs connected with its function as the Group holding company. The loss that is to be expected as a consequence is reducing its equity constantly. When a level of half of the share capital is reached, Section 92 of the German Stock Corporation Act (AktG) requires that an Extraordinary General Meeting be convened to inform shareholders. Further erosion of the equity entails the risk that Phoenix Solar AG becomes overindebted in terms of German stock corporation law. Reducing this risk has the highest priority.

8.7.9 QUALITY AND CAPACITY RISK

The rapid growth in our business activities that we have realized in 2015, and aim to continue in 2016, presents us with additional challenges. A large scope of newly won project orders has to be processed by our teams on schedule and on budget, to the quality committed to the customer, in order to avoid consequences for our reputation and profitability. Shortcomings in product and delivery quality can not only result in contractual penalties, but also exert a strongly negative impact on our business in the respective region subsequently. To counter this risk, the management must ensure that requisite capacities of qualified staff are available at all times.

8.7.10 OTHER RISKS

According to the current status of knowledge, none of the other risks that are monitored constantly as part of the risk management system (receivables default risk, warranty risk, and tax and legal risks, for example) are such that their materialization would entail a significant negative impact on Group revenue and earnings. A legacy project constructed in 2012 can generate a tax risk in the low seven-digit amount in millions of euros.

8.8 OPPORTUNITIES

Guidance for the 2016 financial year is based on the existing business model and the existing Group structure. Our strategy tends to comprise an expansion of the business model and the tapping of new local markets. If progress is already achieved in implementing this strategy during the current financial year, the forecast might also be exceeded.

This concerns, firstly, the expansion of our value chain to include further services upstream and downstream from our core EPC business model. Secondly, we are currently conducting a targeted examination of market entries in some countries. Criteria in this context include the growth phase in which the respective photovoltaic market finds itself, whether political and economic conditions are secure, and whether local partners and our own capacities enable us to generate business.

The extent to which our efforts will already prove successful during the current year is not yet foreseeable.

In our core business, too, opportunities might also arise above and beyond the forecast, however.

While we hired qualified staff to bolster our US team in 2015, and further professionalized all processes, we were also successful in further expanding our base of potential customers and project developers. This operational strengthening and successful processing of all orders has further improved our reputation and market position. Given the continued strong growth of the US market, recommendations by satisfied customers could result in unplanned, additional orders.

In the Asian-Pacific region, too, following conclusion of the current consolidation of the teams and the expansion of business in the Philippines, reference projects that have already been realized and our employees' expertise could open up opportunities that boost our degree of recognition and enable more expansive sales and marketing.

Our main objective is to meet our revenue and results forecast reliably. We will, however, not hesitate to exploit promising opportunities as they arise, thereby potentially reporting additional growth in our business success and profitability already in 2016.

8.9 FUTURE DIVIDEND POLICY

As a matter of principle, the goal of the dividend policy of Phoenix Solar AG 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 met this goal in the past. No distributions are planned for the foreseeable future, however, due to the company having realized considerable losses in the 2011 to 2015 period.

9 GENERAL STATEMENT ON THE GROUP'S POSITION AND PROSPECTS

"The start of 2015 appears to justify an optimistic view for the current year and beyond." The course of business fully confirmed this statement that we made in last year's annual report. We proved that our business model entailing the engineering, procurement and construction of large turnkey photovoltaic plants is viable, and that solid demand for our services exists in growth regions worldwide.

We are positioning ourselves successfully in our target markets with our service offering comprising the turnkey construction of high-performance utility-scale and commercial & industrial rooftop (C&I) photovoltaic systems to deadline and to budget. Renowned customers expressly confirmed in 2015 that we live up to our claim of delivering "Excellence in Global PV Solutions".

On the other hand, experience showed that the particularities of the project business also entail a certain level of volatility. It cannot be excluded entirely that projects that are well developed fail to enter the planning and construction phase, that contractually agreed projects are postponed, or that some building approvals experience long delays. The safest way to address these inherent challenges is by raising business volumes to a level where individual delays or omissions do not jeopardize target-attainment overall. To achieve this gradually ranks as one of our targets for the current and coming years.

For this reason, we have developed and implemented instruments that allow us to rapidly record and control sales activities and successes across the Group. The Executive Board anticipates, and works with all managers toward ensuring, that business contacts that have been initiated are realized as actual orders, at least to a sufficient extent to reach targets. Smoothing out sales successes and securing the planning bases remain constant tasks for the entire company.

With our focus areas in the USA, Asia/Pacific and the Middle East, we are active in photovoltaic markets and well positioned to report further growth for the foreseeable future. Our company in the USA will continue to dominate Group business during the current year. At the same time, we nevertheless expect that the two other growth regions will further boost their proportion of consolidated revenue and results, and support them accordingly. The extent to which European markets and our activities there are already regaining momentum is currently unforeseeable, by contrast.

We are currently operating in large, high-growth markets. We can achieve our budgets and planning without the need for leading market positions, although we have already gained market shares in the USA, and already occupy a very good position in the – significantly smaller – market in Singapore. We nevertheless have to constantly review our own competitiveness in good time, and improve it constantly.

To this end, measures that secure our position are anchored within our six-point plan, and we are implementing them currently. Mention is warranted here of the expansion of our partner networks, which have contributed in the Middle East to our successful start in Turkey and Jordan, for example. Among other factors, the central supply chain function that we are currently establishing will help generate operating cost benefits of between 6 and 8 percent per year.

We will also deploy at our other companies the further improvement in sales management that contributed to our successful growth in the USA, albeit with the necessary regional adaptations. To this measure we are increasingly adding improved operative and controlling processes, to thereby have available stringent processes Group-wide that are adapted to our improved corporate situation. We are already steering each individual project through a centralized approvals process that also involves the Executive Board in major projects. Liquidity planning, in particular, plays a decisive role in this context. To the extent that we succeed in always managing projects on a cash-positive basis thanks to construction progress payments, we are significantly reducing the requirements made of growth financing.

Growth of at least 50 percent makes greater demands of management. In particular, the requisite personnel and technical capacities are to be provided in order to sustainably secure the high level of supply quality that our customers constantly attest. These challenges are recognized, and are being addressed continuously.

The financial basis for our organic growth has been secured thanks to the extension of the syndicated loan until September 30, 2018, which was agreed at the end of the year under review. The task nevertheless remains for the Executive Board to sustainably secure the equity backing for the company and the whole Group, and on the financing side to ensure Phoenix Solar’s capacity to act, including in relation to the strategic options that are to be newly tapped.

We are convinced that photovoltaics can hold its own in the competitive arena, and remain a future-oriented technology. Its market penetration stands on the threshold of a new phase, however, when conditions and opportunities are set to change swiftly, requiring a new approach from providers, policy-makers, investors and customers. In this situation of radical change, we are positioning Phoenix Solar AG as a company that can rise to meet these challenges with its range of products and services. Continuing our sales and earnings growth in 2016 will depend on how swiftly we can achieve this positioning, and convert our good foothold in our core markets into business. We already see ourselves as well equipped for this.

10 SUSTAINABILITY

Generating electricity from sunlight comprises active protection of the environment, and forms an important contribution to ensuring stable energy supplies. Besides offering products that protect the environment, Phoenix Solar also places high priority on sustainable business and management practices. Assuming responsibility for our employees, the environment and society forms part of our corporate culture. Our slogan "Phoenix Solar – Making Energy Together" comprises the guiding principle of our corporate philosophy. Environmental protection, our employees, and our commitment to social responsibility form the principal pillars of our sustainability strategy.

The following section lists specific measures which were launched over the past years, and continued to be implemented at the German locations during the 2015 financial year.

10.1 ECOLOGY

10.1.1 PRODUCTS, SERVICES AND SUPPLIERS

Phoenix Solar Group only distributes products worldwide 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 thereby make an important contribution to an energy mix that is oriented to reducing CO_2 emissions. 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 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 (PV CYCLE), or have set up their own take-back programs. These programs guarantee the acceptance of used products, even if the manufacturer were no longer to be in operation.

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 that 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 last internal and external audits were conducted in 2013 for the Operation & Maintenance validity area at the Ulm site.

Due to stronger operating activities at the subsidiaries Phoenix Solar Overseas GmbH and Phoenix Solar Frankreich S.A.S., a quality and environmental management system was implemented again at the end of the 2015 financial year, in order to conduct certification in a multi-site process during the first quarter of 2016. Phoenix Solar AG is oriented here to revised ISO standards 9001:2015 and 14001:2015. The corporate management principles have been extended to include the stakeholder approach. This assumes that long-term success and profitability can be secured only through taking into account a company's various defined interest groups.

As all locations operate under the same joint management system that Phoenix Solar AG, as the Group's central operation, formulates, introduces and monitors regularly, requirements of processes for the quality and environmental management system are at the same level.

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 organizational 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 was continuously monitored, adjusted and improved by means of periodic reviews during up to the end of the 2013 financial year. The renewed engagement of the environmental management system with the requirements of DIN EN ISO 14001:2015 includes an expansion of the environmental assessment, including aspects from the entire life-cycle of PV systems and their main components.

An environmental management officer was appointed who worked in close coordination with the management to ensure that the company complies with and implements all regulations pursuant to DIN EN ISO 14001 as well as all regulatory requirements. The tasks of the environmental management officer lie directly at the most senior management level that is responsible for applying and complying with environmental policy and environmental targets, and can delegate this responsibility where required.

Compliance with the company's environmental policy is verified through internal audits at least once every year.

10.1.4 VEHICLE FLEET

Following the disposal of the European O&M business at the Ulm site and the downsizing of the Group headquarters, the Group no longer operates its own vehicle fleet.

10.1.5 OTHER

At our Sulzemoos site we continue to purchase the electricity that we consume from a certified environmental electricity provider that supplies only electricity produced from regenerative energy sources, meets the EcoTopTen criteria, and was categorized as "very good" by the magazine "ÖkoTest". We also minimize paper consumption, and purchase the paper we use for our print products only from paper manufacturers that carry the seal of the Forest Stewardship Council (FSC). Cleaning agents have been replaced consistently by environmental products.

10.2 COMMITMENT TO SOCIAL RESPONSIBILITY

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

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

As of December 31, 2015, 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 value bearer shares. All shares are issued and fully paid in. Pursuant to Section 5 (5) of the articles of incorporation, shareholders are not entitled to separate share 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 are established in the German Stock Corporation Act (AktG), particularly Sections 53a et seq. and 118 et seq.

No restrictions on voting rights or the transfer of shares exist. The company's Executive Board is not aware of any civil 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 (WpHG).

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

Amendments to the articles of incorporation are fundamentally subject to the legal provisions under Sections 133 and 179 of the German Stock Corporation Act (AktG). Unless regulated otherwise on a specific case basis by the articles of incorporation, and provided they do not contradict mandatory statutory requirements, AGM resolutions are passed pursuant to Section 14 (5) Clause 2 of the articles of incorporation by way of a simple majority of the votes issued or, if a capital majority is required, the share capital represented at the time of the resolution. Pursuant to Section 12 (3) of the articles of incorporation, the Supervisory Board is authorized to approve amendments relating solely to their wording. Moreover, by virtue of the resolutions of the AGMs of July 7, 2006, June 16, 2010, July 14, 2011, and June 23, 2015, the Supervisory Board is also authorized to amend Section 5 of the articles of incorporation to reflect the respective utilization of Conditional Capital 2006, Conditional Capital 2015 and Approved Capital 2015. The Supervisory Board is similarly authorized after the expiration of the respective authorization periods, and, in the event that the Conditional Capital 2010 is not utilized, after expiration of all conversion and/ or warrant periods.

The Supervisory Board appoints, and revokes appointments of, Executive Board members in accordance with the statutory provisions of Sections 84 et seq. of the German Stock Corporation Act (AktG). Pursuant to Section 6 (1) of the articles of incorporation, the Supervisory Board determines the number of Executive Board members and of any deputy Executive Board members.

By way of resolution by the AGM of June 23, 2015, the Executive Board was authorized, with the consent of the Supervisory Board, to purchase treasury shares representing no more than ten percent of the company's share capital, either on the stock market or by means of a public purchase offer to all shareholders, and to resell them on or before June 22, 2020. Further details are set down in the proposed resolution published in the electronic Federal Gazette (Bundesanzeiger) dated May 15, 2015, and passed in this form.

By way of resolution by the AGM of June 23, 2015, the Executive Board was authorized 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 non-cash capital contributions on one or more occasions on or before June 22, 2020 (Approved Capital 2011). Subscription rights must be granted to the shareholders as a matter of principle. 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 (1), and 186 (3) Clause 4 of the German Stock Corporation Act (AktG) 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;
b) when issuing new shares in exchange for non-cash capital contributions, particularly for the purpose of acquiring companies, parts of companies, and/or investments in companies. This authorization is nevertheless 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 Shareholders' General Meeting (including the authorizations defined in sections a and c of the present resolution), does not exceed 30 percent of the share capital at the time when this authorization takes effect, or when it is exercised, whichever is lower;
c) in order to grant the bearers of warrant or conversion rights, or warrant or conversion obligations, arising from bonds with warrants or conversion rights as issued by the Company or a company in which the Company holds a direct or indirect majority interest, or warrant or conversion obligations, subscription or exchange rights to new shares in the scope to which they would be entitled as shareholders after exercising the warrant or conversion right, or satisfying the warrant or conversion obligation;
d) for fractional amounts.

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

No further stock options may be issued under the authorization approved by the AGM of July 7, 2006, which was operative until July 1, 2011, to establish a Stock Option Plan 2006, which entailed the issuance of stock options granting subscription rights to shares in the Company to members of the Executive Board, members of the senior management of Group companies, and other selected executives and key employees, under exclusion of shareholders' subscription rights. No stock options were exercised in the 2015 financial year. A total of 35,500 options were still outstanding as of December 31, 2015. 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 exercise 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, chapter (40)).

Also based on an AGM resolution of June 23, 2015, the Executive Board is authorized, with Supervisory Board assent, to issue by the end of June 22, 2020, once or on several occasions, bearer or registered convertible bonds, bonds with warrants, and/or profit participation bonds, and/or profit participation rights (or combinations of such instruments) (together referred to as "bonds"), with or without maturity limitation, in a total nominal amount of up to EUR 40,000,000.00, and to substantiate conversion or warrant rights for bondholders to subscribe for up to 3,643,850 ordinary bearer shares in the Company with a proportional amount of the share capital totaling up to EUR 3,643,850.00. The shareholders are to be entitled to subscription rights to the bonds, as a matter of principle.

The Executive Board is nevertheless authorized, with Supervisory Board assent, to exclude shareholders' subscription rights in relation to the bonds:

a) for fractional amounts;
b) to the extent that it is requisite to grant to the holders of previously issued conversion or warrant rights relating to shares in the Company, or the holders of convertible bonds issued with conversion rights, a subscription right to the extent to which they would be entitled as shareholders after exercising such conversion or warrant rights, or after fulfilling conversion obligations;
c) to the extent that bonds with conversion and/or warrant rights, or conversion obligations, are to be issued against cash consideration, and the issue price is not significantly less than the theoretical market value of the bonds with conversion and/or warrant rights, or warrant obligations, as calculated applying recognized finance-mathematical methods. This authorization relating to exclusion of subscription rights is nevertheless valid only to the extent that a proportional amount of not more than 10 percent of the share capital (and specifically neither at the date of the becoming operative nor at the date of the exercising of the authorization) is attributable to shares to be issued for the servicing of the conversion and warrant rights, or satisfaction of conversion obligations ("maximum amount").

The Executive Board is authorized, with Supervisory Board assent, and as part of further stipulations by the corresponding AGM resolution (that can be downloaded from the company's website under "Investor Relations", and then under "2015 Annual General Meeting", and in the German Federal Gazette / Bundesanzeiger published May 15, 2015, agenda item 8), to determine the details relating to the structuring of the respective rights.

The aforementioned AGM created Conditional Capital 2015 to service the conversion and warrant rights created in connection with bonds. The terms and conditions of the convertible bonds and/or warrant bonds are to be determined separately, with Supervisory Board assent.

The company's syndicated loan agreement that was concluded on May 11, 2012, and recently amended and reworded as a result of an agreement dated March 18, 2016, includes an agreement concerning a change of control. 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/s control over the company. 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 PRINCIPLES OF THE COMPENSATION SCHEME FOR THE EXECUTIVE AND SUPERVISORY BOARDS

In accordance with Section 315 (2) No. 4 of the German Commercial Code (HGB), the following section describes the basic principles of the compensation scheme for setting the total compensation of the Executive and Supervisory board members of Phoenix Solar AG, as per Section 314 (1) No. 6 of the German Commercial Code (HGB). The compensation report also adheres to the recommendations of the German Corporate Governance Code, and itemizes compensation granted to individual Executive and Supervisory board members.

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 financial position and performance.

In the 2015 financial year elapsed, the total compensation of Executive Board members was composed of the non-performance related components and performance-related components described below:

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 accident insurance cover primarily for accidents on the job, but also covering 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.

Since 2013, performance-based remuneration components are determined by means of a flexible process based on target agreements that enables 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 and growth. The Supervisory Board can nevertheless diverge from this principle depending on the company's situation, and opt for a single-year basis, for instance. No utilization was made of this in the 2015 financial year, however.

Performance-based compensation components were agreed with the Chief Executive Officer and Chief Financial Officer for the 2015 financial year. The only performance criterion here was to reach the consolidated EBIT target for the 2015 and 2016 financial years.

The performance-based compensation components are capped.

Total Executive Board compensation amounted to kEUR 803 in the 2015 financial year (previous year, including compensation former directors who no longer belong to the company in the year under review: kEUR 1,074). The following section presents individual compensation separated according to remuneration granted and actual accruals:

Tim P. Ryan
Chief Executive Officer

k€	Payments/benefits granted				Non-performance related components	
	2014	2015	2015 (Min)	2015 (Max)	2014	2015
Fixed compensation	0	313	313	313	0	313
Additional benefits	0	69	69	69	0	69
Total	**0**	**382**	**382**	**382**	**0**	**382**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	50	0	0
Total	**0**	**0**	**0**	**50**	**0**	**0**
Pension expense	0	0	0	0	0	0
Total compensation	**0**	**382**	**382**	**432**	**0**	**382**

Manfred Hochleitner
Chief Financial Officer

k€	Payments/benefits granted				Non-performance related components	
	2014	2015	2015 (Min)	2015 (Max)	2014	2015
Fixed compensation	0	174	174	174	0	174
Additional benefits	0	12	12	12	0	12
Total	**0**	**186**	**186**	**186**	**0**	**186**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	60	0	0
Total	**0**	**0**	**0**	**60**	**0**	**0**
Pension expense	0	0	0	0	0	0
Total compensation	**0**	**186**	**186**	**246**	**0**	**186**

Dr. Murray Cameron
Executive Board member

k€	Payments/benefits granted				Non-performance related components	
	2014	2015	2015 (Min)	2015 (Max)	2014	2015
Fixed compensation	215	144	144	144	215	144
Additional benefits	8	9	9	9	8	9
Total	**223**	**153**	**153**	**153**	**223**	**153**
One-year variable compensation	0	0	0	0	74	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Pension expense	0	0	0	0	0	0
Total compensation	**223**	**153**	**153**	**153**	**297**	**153**

Dr. Bernd Köhler
Chief Executive Officer and Chief Financial Officer until 12/31/2014

k€	Payments/benefits granted				Non-performance related components	
	2014	2015	2015 (Min)	2015 (Max)	2014	2015
Fixed compensation	487	0	0	0	487	0
Additional benefits	25	0	0	0	25	0
Total	**512**	**0**	**0**	**0**	**512**	**0**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Pension expense	0	0	0	0	0	0
Total compensation	**512**	**0**	**0**	**0**	**512**	**0**

Olaf Laber
Executive Board member from 01/01/2014 until 31/01/2015

k€	Payments/benefits granted				Non-performance related components	
	2014	2015	2015 (Min)	2015 (Max)	2014	2015
Fixed compensation	218	13	13	13	218	13
Additional benefits	18	1	1	1	18	1
Abfindung	0	68	68	68	0	68
Total	**236**	**82**	**82**	**82**	**236**	**82**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	30	0
Total	**0**	**0**	**0**	**0**	**30**	**0**
Pension expense	0	0	0	0	0	0
Total compensation	**236**	**82**	**82**	**82**	**266**	**82**

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

No loans were extended to members of the Executive Board.

12.3 SUPERVISORY BOARD

The compensation of the Supervisory Board is authorized and determined by the Annual General Meeting in accordance with Section 11 of the company's articles of incorporation. The 2012 Ordinary AGM 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 Chair is paid two and a half times this compensation, which amounts to EUR 37,500. The Deputy Chair receives one and a half times this amount, in other words, 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 which the respective member attended. 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 Supervisory Board Chair within a scope appropriate for the exercising of related tasks.

No consultancy contracts existed between the company and the Supervisory Board members. Similarly, no Supervisory Board member was granted loans by the company.

Supervisory Board compensation comprised no performance-related compensation components or compensation components of long-term incentive effect in either the 2015 or 2014 financial years.

Overall, Supervisory Board compensation amounts to kEUR 120 in 2015 (previous year: kEUR 129). The following compensation amounts were paid individually (net amounts excluding VAT):

k€	Non-success-dependent components (incl. ancillary benefits)		Total	
	2014	2015	2014	2015
J. Michael Fischl (until 06/23/2015)	54	23	54	23
Oliver Gosemann	36	44	36	44
Prof. Dr. Thomas Zinser	39	38	39	38
Hans-Gerd Füchtenkort (since 06/23/2015)	0	15	0	15
Total	**129**	**120**	**129**	**120**

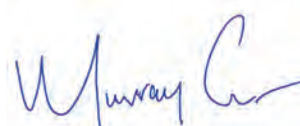
13 RESPONSIBILITY STATEMENT

We assure that, to the best of our knowledge, the Group management report presents the progression of business, including the business results and the Group's position, so as to give a true and fair view of actual circumstances, as well as of significant opportunities and risks pertaining to the Group's prospective development.

Sulzemoos, March 24, 2016

Tim P. Ryan
(Chief Executive Officer)

Manfred Hochleitner
(Chief Financial Officer)



Dr. Murray Cameron
(Executive Board member)

CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM JANUARY 1 UNTIL DECEMBER 31, 2015 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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– Eventual rounding differences in the tables are due to arithmetic reasons. –

CONSOLIDATED INCOME STATEMENT

Persuant to IFRS for the period from January 1 until December 31, 2015 k€	Notes C.	01/01/2015 – 12/31/2015	01/01/2014 – 12/31/2014
Revenues	(2)	119,407	33,783
Cost of materials	(4)	109,425	28,050
Gross profit		**9,982**	**5,733**
Other operating income	(3)	5,324	11,694
Personnel expenses	(5)	7,626	9,578
Other operating expenses	(7)	7,917	10,935
EBITDA		**– 237**	**– 3,087**
Depreciation and amortisation	(6)	1,366	1,569
Operating result		**– 1,603**	**– 4,655**
Result from associated companies	(8)	24	39
EBIT		**– 1,579**	**– 4,616**
Financial income		98	146
Financial costs		4,464	5,271
Financial result	(9)	**– 4,367**	**– 5,125**
Consolidiated net income before income taxes (EBT)		**– 5,946**	**– 9,741**
Income taxes	(10)	– 317	426
Consolidiated net income for the period		**– 5,629**	**– 10,167**
– of which due to minority interest		– 406	– 3
– of which due to majority shareholders		– 5,223	– 10,170
Earnings per share			
Earnings per share (basic) (in €)		– 0.71	– 1.38
Earnings per share (diluted) (in €)		– 0.71	– 1.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

pursuant to IFRS for the period from January 1 until December 31, 2015 k€	Notes D.	01/01/2015 – 12/31/2015	01/01/2014 – 12/31/2014
Consolidiated net income for the period		**– 5,629**	**– 10,167**
Transactions associated with minority interests		– 524	1,228
Differences from currency translation		256	828
Changes in value recognised directly under equity	(27)	**– 268**	**2,056**
Overall performance		**– 5,897**	**– 8,111**
– of which due to minority interest		– 930	1,231
– of which due to majority shareholders		– 4,967	– 9,343

CONSOLIDATED BALANCE SHEET

pursuant to IFRS as at December 31, 2015

ASSETS k€	Notes C. and D.	12/31/2015	12/31/2014
Non-current assets			
Intangible assets	(12,15)	247	372
Goodwill	(13,15)	298	298
Property, plant and equipment	(14,15)	13,702	14,777
Investments in associates	(16)	387	397
Other participating interests	(17)	150	151
Non-current receivables	(18)	467	474
Deferred tax assets	(10)	1,862	1,276
Non-current other financial assets	(23)	144	138
Total non-current assets		**17,257**	**17,883**
Current assets			
Inventories	(19)	1,952	2,067
Prepayments	(20)	4,878	41
Receivables from long-term construction contracts	(21)	6,471	1,026
Trade receivables	(22)	9,917	10,357
Current other financial assets	(23)	3,004	3,585
Current other non-financial assets	(25)	4,233	6,376
Current income tax assets	(10)	857	791
Cash and cash equivalents	(26)	4,875	3,114
Total current assets		**36,187**	**27,357**
Total assets		**53,444**	**45,240**

LIABILITIES AND SHAREHOLDERS' EQUITY k€	Notes C. and D.	12/31/2015	12/31/2014
Equity			
Subscribed capital	(27)	7,373	7,373
Capital reserve	(27)	64,582	64,582
Accumulated other equity	(27)	– 80,188	– 75,153
Share of majority shareholders in consolidated equity		– 8,234	– 3,199
Share of minority interest in consolidated equity		681	1,615
Total equity		**– 7,553**	**– 1,583**
Non-current liabilities and provisions			
Non-current financial liabilities	(28)	39,059	38,590
Non-current provisions	(29)	660	658
Deferred tax liabilities	(10)	4	31
Total non-current liabilities and provisions		**39,723**	**39,278**
Current liabilities and provisions			
Current financial liabilities	(28)	0	1
Liabilities from long-term construction contracts	(21)	8,631	346
Trade payables	(30)	9,496	2,469
Other financial liabilities	(31)	1,062	1,085
Other non-financial liabilities		1,487	2,151
Current provisions	(29)	532	1,439
Current income tax liabilities	(10)	67	54
Total current liabilities and provisions		**21,274**	**7,545**
Total liabilities and shareholders' equity		**53,444**	**45,240**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/2014 until 12/31/2015 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 January 1, 2014		**7,373**	**64,582**	**– 65,949**	**6,005**	**1,458**	**7,464**
Capital increase (minorities)						154	154
Difference from currency translation	(27)			828	828		828
Change in companies to be consolidated				138	138		138
Consolidated net income/loss in 2014				– 10,170	– 10,170	3	– 10,167
As per December 31, 2014		**7,373**	**64,582**	**– 75,153**	**– 3,199**	**1,612**	**– 1,584**
As per January 1, 2015		**7,373**	**64,582**	**– 75,153**	**– 3,199**	**1,612**	**– 1,584**
Dividend payment (minorities)						– 524	– 524
Difference from currency translation	(27)			256	256		256
Adjustment of retained earnings				– 68	– 68		– 68
Consolidated net income/loss in 2015				– 5,223	– 5,223	– 406	– 5,629
As per December 31, 2015		**7,373**	**64,582**	**– 80,188**	**– 8,234**	**681**	**– 7,553**

CONSOLIDATED CASH FLOW STATEMENT

pursuant to IFRS for the period from January 1 until December 31, 2015 k€	**Notes C. and D.**	**01/01/2015 – 12/31/2015**	**01/01/2014 – 12/31/2014**
Consoldiated income before income taxes		– 5,946	– 14,274
Depreciation and amortization	(6)	1,366	1,569
Other non-cash income (–) and expenses (+) (including result from associated companies)	(9)	– 796	– 376
Financial income	(9)	– 98	– 146
Financial costs		4,464	5,271
Sub-total		**– 1,010**	**– 7,956**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	– 607	– 1,113
Increase/decrease in inventories	(19)	73	1,249
Increase/decrease in prepayments	(20)	– 4,837	44
Increase/decrease in receivables from long-term construction contracts	(21)	– 5,446	4,328
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	559	2,713
Increase/decrease in assets	(23), (25)	2,636	6,096
Increase/decrease in liabilities		14,606	– 8,293
Funds generated by operating activities		**5,975**	**– 2,931**
Interest paid	(9)	– 3,852	– 4,513
Income taxes paid	(10)	– 348	– 1,035
Cash flow from operating activities		**1,775**	**– 8,480**
Proceeds from associated companies		24	39
Proceeds from disposal of business (O&M)		0	4,533
Purchase of intangible assets and equipment	(12), (14), (15)	– 196	– 886
Cash flow from investing activities		**– 172**	**3,686**
Payments in connection with financial liabilities	(28)	486	– 1,743
Commission for syndicated loan agreement		– 426	– 524
Interest income		98	146
Cash flow from financing activities		**158**	**– 2,121**
Changes in cash and cash equivalents		1,761	– 6,915
Net change in cash and cash equivalents		**1,761**	**– 6,915**
Cash and cash equivalents at the start of the period	(26)	3,114	10,029
Cash and cash equivalents at the end of the period	(26)	4,875	3,114
Increase/decrease in cash and cash equivalents		**1,761**	**– 6,915**

NOTES

TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2015 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As of December 31, 2015, the Phoenix Solar Group (also referred to hereinafter as the “Phoenix Group”) consisted of 23 companies with a total of 85 (previous year: 110) employees (calculated as full-time employees, including temporary employees, and excluding members of the Executive Board).

The parent company, which is also the Group’s ultimate parent company, is a corporation (public stock corporation), and in accordance with the resolution adopted by the Annual General Meeting of the former Phönix SonnenStrom Aktiengesellschaft of May 25, 2007, the company is named Phoenix Solar Aktiengesellschaft (referred to hereinafter as: Phoenix Solar AG), with its head office at Hirschbergstrasse 4, in 85254 Sulzemoos, Germany; it is registered in the commercial register of the Munich District Court under company register sheet number 129117.

The parent company has been listed in the Prime Standard segment of Deutsche Börse AG, Frankfurt am Main, Germany, since June 27, 2006. The Prime Standard is one of European Union’s regulated segments, and is the segment of admission for companies that wish to also address international investors. Companies listed in the Prime Standard segment are required to apply the accounting regulations of the International Accounting Standards Board (IASB), in other words, those of 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 parent company’s business purpose 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 its business purpose. It can establish branch operations or branch offices both in Germany and abroad, and acquire interests in identical or similar operations. It can pursue its business purpose as a holding company, whether wholly or in part. In 2015 the company’s activities took place almost exclusively in North America, the Middle East, Asia and in the Eurozone.

(2) INFORMATION ABOUT ACCOUNTING POLICIES

As a consequence, Phoenix Solar AG prepares its consolidated financial statements in accordance with the regulations of International Financial Reporting Standards (IFRS) which are applicable as of December 31, 2015, and which have been issued by the International Accounting Standards Board (IASB) in London, and which the EU had adopted by the date when this set of consolidated financial statements was prepared. All of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for the 2015 financial year, and the earlier interpretations of the Standing Interpretations Committee (SIC), insofar as the EU had adopted them by the date when these consolidated financial statements were prepared, as well as the supplementary provisions of Section 315a (1) of the German Commercial Code (HGB) have been complied with in these consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement and the statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements, and the Group management report that is to be prepared additionally. 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 derivative financial instruments.

The consolidated financial statements are prepared in euros, as the Group reporting currency. In accordance with the functional currency concept, the respective Group companies' balance sheet items are always measured in the currency that is predominant in the primary economic environment in which operating activities occur. Transactions denominated in currencies other than the functional currency are translated at the spot exchange rate between the functional currency and the non-functional currency applicable on the respective transaction date. Any currency translation differences are recognized in profit or loss.

When a measurement unit other than the euro is applied, such as k€ (thousand euros), for example, a note is made accordingly.

The preparation of consolidated financial statements requires the application of estimates and assumptions that can affect the amounts of assets, liabilities and financial obligations as of the reporting date, and the amounts of income and expenses during the financial year. Actual amounts can differ from these estimates. In particular, the management is required to make estimates and assumptions in relation to the adoption of uniform recognition and measurement principles to be applied in the consolidated financial statements. Such estimates and assumptions are reviewed continuously, and adjusted whenever past experience, other factors and reasonable estimations of future developments necessitate a reassessment of specific topics by the management. The effects of any changes in the estimates or assumptions are recognized prospectively in profit or loss in the period in which such changes are realized.

The principal estimates and assumptions that can be particularly important for the Group's financial position and performance comprise the following:

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

The Group employs qualified distinction criteria in determining whether to apply the percentage-of-completion method or the zero profit method pursuant to IAS 11. Sector trends and related further developments in contract structures partially necessitate estimating the occurrence of suspensive contractual terms as of the reporting date. Although the Phoenix Group's construction controlling function applies the most probable outcome of a contract to the greatest possible extent as the basis to assess applicability of the percentage-of-completion method, it is nevertheless possible that somewhat unlikely scenarios occur, thereby necessitating the reclassification of a construction contract as a zero profit method contract according to proportionate profit recognition principles. Such reclassification could lead to a differing presentation of financial position and performance.

As the cost-to-cost method is applied in nearly all of the company's business areas, future project costs have to be estimated to determine percentage of completion as of the reporting date, and consequently also recognition of receivables under long-term construction contracts. In such cases, it cannot be ruled out that estimation errors could lead to imprecise results in relation to recognition of periodic profits.

- **INCOME TAXES**

The determining factor for recognizing deferred tax assets is always an estimation of the future trends at the respective taxpaying entity. In determining the amount of deferred tax assets that can be recognized, the management is required to make significant 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 of, and balance between, the terms and conditions for its purchasing and sales activities. In a very dynamic market environment such as for photovoltaics, this general approach partially results in contractual agreements being concluded with terms and conditions that affect purchasing and sales prices that take future events into account. In order to predict the outcome of such events, which the Phoenix Group is partially unable to influence, an estimation of the future occurrence of events needs to be made for accrual accounting purposes. Such estimates can differ from the actual outcome of events.

- **DETERMINATION OF THE NEED FOR IMPAIRMENT LOSSES**

The Group's goodwill impairment tests apply calculations based on the discounted cash flow method. The expected cash flows over the next three years are derived from the financial plan for the cash-generating unit that is being tested for goodwill impairment. 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 inflows and outflows, and growth rate applied.

- **MEASUREMENT OF FINANCIAL INSTRUMENTS**

Measuring and reporting the fair values of financial instruments is based on a fair value hierarchy that takes into consideration the importance of the inputs utilized for the valuation, and is structured as follows:

- Level 1: (Unadjusted) prices for identical assets and liabilities quoted in active markets.
- Level 2: Directly or indirectly observable inputs for the asset or liability that do not comprise quoted prices as per Level 1. Fair values of financial instruments of Level 2 are calculated on the basis of terms existing on the reporting date, e.g. interest rates or foreign currency exchange rates, and are calculated with the help of recognized models such as discounted cash flow models or option pricing models.
- Level 3: Inputs to which recourse is made that are not based on observable market data for measuring the assets or liabilities (non-observable inputs). In the case of the receivables in Level 3, fair value was measured taking expectations about specific losses into account, which are based to a considerable extent on the company's assumptions concerning the counterparty's creditworthiness.

If circumstances arise requiring another categorization, a reclassification is implemented annually. Measurement of stock options

- **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 is obligated to deliver its own shares to the beneficiaries when stock options are exercised. The fair value of the stock options on the grant date is determined on the basis of market prices (quoted prices of Deutsche Börse AG, Frankfurt), taking into account issue terms and conditions, and applying generally recognized measurement methods for financial instruments. The factors applied to measure the stock option values comprise exercise price, term, current market value of the underlying instrument (the share of Phoenix Solar AG), expected market price volatility based on historical volatility, dividends expected to be paid on the shares, and the risk-free interest rate for the term of the stock options. Other factors taken into consideration, as particular aspects of the exercise probability, include the necessary qualification period (blocking period), and potential exercise of the stock options based on historical exercise patterns. In subsequent periods, the stock options' calculated value is expensed proportionally over the term, taking into account the assumed length of service or assumed employee turnover rate among the beneficiaries. Because the corresponding amounts are reported under personnel expenses and capital reserves, changes in estimates relating to quantity structure can lead to changeable allocations to equity.

- **MEASUREMENT OF LONG-TERM COMPENSATION INCENTIVES**

Since 2013, performance-based remuneration components are determined by means of a flexible process based on target agreements that enables 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 and growth. The Supervisory Board can nevertheless diverge from this principle depending on the company's situation, and opt for a single-year basis, for instance. No utilization was made of this in the 2015 financial year, however.

- **RECOGNITION AND MEASUREMENT OF PROVISIONS AND/OR CONTINGENT LIABILITIES**

The Group may be exposed to special warranty risks in some cases due to its business activity in the Power Plants segment, and its generally assumed role of general contractor. Although the Group requires adherence to quality standards in selecting materials and subcontractors (such as ISO 9001 certification for subcontractors and suppliers, for example), as well as 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 greater extent to determine the best estimate of a provision. It must be assumed that the reliability of such estimates is limited due to the lack of a universe of statistically analyzable data at present. As a consequence, over coming periods it cannot be ruled out that provisions will fail to match sales growth, or materials and services utilized.

a) The following amendments to existing standards and interpretations must be applied for the first time for financial years starting from January 1, 2015:

The IASB has published its "Annual Improvements to IFRSs 2011 – 2013 Cycle". These annual improvements include amendments to various standards.

- The amendments to **IFRS 1: "First-time Adoption of IFRS"** clarify that, in its first set of IFRS financial statements, a company has an option between applying existing and currently valid IFRS and early application of new or revised IFRS the do not yet require mandatory application, as long as early application is permitted.

- The amendment to **IFRS 3: "Business Combinations"** clarifies that the IFRS 3 application scope excludes the recognition of the foundation of all types of joint arrangements in the financial statements of the joint arrangements itself.

- The amendment to **IFRS 13: "Fair Value Measurement"** concerns the application area of paragraph 52 to clarify that the exemption for portfolios in paragraph 52 of IFRS 13 comprises all contracts that are recognized pursuant to IAS 39 "Financial Instruments: Recognition Measurement" or IFRS 9 "Financial Instruments"; this applies irrespective of whether they meet the definition of a financial asset or financial liability pursuant to IAS 32 "Financial Instruments: Presentation".

- The amendments to **IAS 16: "Property, Plant and Equipment"** require that when remeasuring property, plant and equipment, gross value be adapted in accordance with remeasurement of the carrying amount.

- The clarification of **IAS 40: "Investment Property"** states that determining whether a particular transaction meets the definition of a business combination pursuant to IFRS 3 "Business Combinations", as well as the definition of investment property pursuant to IAS 40 "Investment Property", requires the application of both standards independently of each other.

The application of these amendments has no effects on the consolidated financial statements of Phoenix Solar AG for the 2015 financial year, due to lack of relevance.

b) Standards, amendments and interpretations that are neither compulsory nor applied early

- **IAS 1: "Disclosure Initiative":** The amendments aim to eliminate hurdles that preparers of financial statements perceive in relation to the exercising of discretion in the presentation of financial statements. EU endorsement occurred on December 18, 2015; the amendments are applicable from January 1, 2016.

- **IFRS 14: "Regulatory Deferral Accounts":** According to this standard, only entities that are first-time IFRS adopters are permitted to continue to report regulatory deferral accounts according to their previous accounting policies following transition to IFRS. This new standard is applicable from January 1, 2016, and is intended as a short-term interim solution until the IASB concludes its longer term underlying project on price-regulated transactions.

- Amendments to **IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"**; accordingly, purchasers of interests in joint operations that comprise operations as defined in IFRS 3 must apply all principles relating to the accounting treatment of business combinations arising from IFRS 3 and other IFRS, as long as they do not contravene the principles of IFRS 11.

- The amendments to **IAS 16 and IAS 38** provide guidelines as to which methods are to be applied to depreciate property, plant and equipment and to amortize intangible assets, especially in relation to revenue-based depreciation/amortization methods.

- Amendment to **IAS 27: "Equity Method in Separate Financial Statements":** The amendments re-permit the equity method as an accounting option for interests in subsidiaries, joint ventures and associates in the separate financial statements of an investor. Following EU endorsement on December 18, 2015, the first-time application date is as of January 1, 2016.

- **IFRS 15: "Revenue from Contracts with Customers"** This new standard provides rules on when, and to what level, revenue is to be recognized. IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", and a number of revenue-related interpretations. The version of IFRS 15 published on May 28, 2014 included a first-time application date on January 1, 2017, or financial years beginning thereafter. The IASB approved "Effective Date of IFRS 15" on September 11, 2015, moving the mandatory first-time application date of IFRS 15 to January 1, 2018. All IFRS first-time adopters must apply IFRS 15, and it applies to almost all contracts with customers – leases, financial instruments and insurance contracts are the main exceptions.

- **IFRS 16 "Leases"**. The IASB has published a new standard that replaces the existing IAS 17 standard on lease accounting, as well as the interpretations IFRIC 4, SIC-15 and SIC-27. The main new aspects introduced by IFRS 16 relate to accounting practice for the lessee. In the case of all leases, lessees are now required to recognize as assets the rights of utilization that they obtain, and to recognize as liabilities the payment obligations that they assume. This standard requires mandatory application from January 1, 2019.

- Amendment to **IFRS 9: "Financial Instruments"** – This amendment comprises a preliminary mandatory first-time application date for IFRS 9 of January 1, 2018 or financial years commencing subsequently. This amendment is intended to allow for concurrent application of all IFRS 9 regulations, 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 the IAS 39 Replacement Project are still in the discussion phase. Furthermore, the revised version allows reporting entities the option of not adjusting prior-year comparison figures on first-time adoption of IFRS 9. This exemption was originally permitted only if IFRS 9 were applied prior to the obligatory date of January 1, 2012. During the transition period, this exemption results in additional disclosures to be made in the notes to the financial statements pursuant to IFRS 7. Such disclosures are intended to enable investors to assess the effects on the recognition and measurement of financial instruments resulting from first-time application of IFRS 9. The postponement of the obligatory date of first-time application does not entail any changes to Phase 1 IFRS 9 regulations that have already been adopted. Earlier application is still permitted. EU endorsement is still outstanding. The Phoenix Group currently expects that these amendments will not necessitate any changes to the Group's existing accounting practices.

- Amendments to **IFRS 10/ IAS 28:** The amendments should clarify that, in the case of transactions with associates or joint ventures, the extent of recognition of profit or loss depends on whether the sold or contributed assets comprise an operation. As it is currently not known whether and when the "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" project will result in a revision of IAS 28, and the first-time application date of this revision is also unclear, the IASB has decided to postpone the date of coming into force for an indefinite period.

In September 2014, the IASB published its "Annual Improvements to IFRSs 2012 – 2014 Cycle", thereby amending seven standards. The new regulations are to be applied for financial years commencing on or after January 1, 2016.

- The amendment to **IFRS 5: "Non-current Assets Held for Sale and Discontinued Operations"** relates particularly to the disposal method, specifically requiring adoption of separate guidelines in instances where an entity directly reclassifies an asset from the "held for sale" to the "held for distribution to owners" category, and (in reverse) in instances where categorization as "held for distribution to owners" is discontinued.

- The amendment to **IFRS 7: "Financial Instruments: Disclosures"** clarifies whether a servicing agreement represents a continuing involvement in relation to a transferred asset, in order to determine disclosures to be made in notes to financial statements. This results in an amendment relating to offsetting in connection with condensed interim reports. This amendment clarifies that disclosures relating to offsetting are not explicitly required for all interim reporting periods. Such disclosures can be required in individual cases to comply with IAS 34, however.

- The amendments to **IAS 19: "Employee Benefits"** clarify, in particular, that high-grade corporate bonds utilized to calculate discounting rates for post-retirement employee benefits should be denominated in the same currency as the payments to be rendered.

- The amendments to **IAS 34: "Interim Financial Reporting"** relate especially to the disclosure of information "elsewhere in the interim report", clarifying the meaning of "elsewhere in the interim report". This amendment now also requires that a source reference be made to this other section, if it is not located within the main body of the interim report.

The Phoenix Solar Group does not intend to apply this regulation at an early stage. The Phoenix Solar Group is assessing the resultant effects on the presentation of the Group's financial position and performance, and does not expect these amendments to result in material changes.

On November 19, 2015, with draft ED/2015/10, the IASB has published Annual Improvements 2014 – 2016 Cycle. The amendments that are proposed in this cycle relate to the following standards:

- **IFRS 1: "First-time adoption of IFRSs":** The short-term exempting provision in IFRS 1. Appendix E (IFRS 1.E3-E7) for first-time adopters is canceled.
- **IFRS 12: "Disclosure of Interests in Other Entities":** The amendment clarifies that the disclosures are also valid for interests that fall into the application scope of IFRS 5 (except IFRS 12.B10-B16).
- **IAS 28: "Investments in Associates and Joint Ventures":** The amendment clarifies that the option to recognize an interest in an associate or joint venture as measured at fair value through profit or loss on initial recognition can be exercised differently for each interest.

The draft does not yet include a date when the amendments become operative. The deadline for comments on this draft ended on February 17, 2016.

(3) REPORTING DATE

The reporting date for the companies included in the consolidated financial statements is in each case December 31. The accounting period to which the financial statements refer comprises the period from January 1 to December 31.

(4) DATE OF AUTHORIZATION FOR ISSUE

The financial statements were approved for publication on March 24, 2016. Authorization was issued by the Executive Board before the financial statements were forwarded to the Supervisory Board for approval.

(5) CONSOLIDATION PRINCIPLES

SCOPE OF CONSOLIDATION

All subsidiaries in accordance with the principles of IAS 10 were included in the consolidated financial statements of Phoenix Solar AG. The scope of consolidation of the Phoenix Group has changed compared with December 31, 2014, as presented below.

Besides parent company Phoenix Solar AG, the following companies – permanent subsidiaries and project subsidiaries – formed the scope of consolidation as of December 31, 2015:

Subsidiaries	Type of Consolidation	Share of equity/ voting rights
Phoenix Solar S.L., Madrid, Spain	Full consolidation	100 %
Phoenix Solar M.E.P.E., Athens, Greece	Full consolidation	100 %
Phoenix Solar SAS, Lyon, France	Full consolidation	100 %
Phoenix Solar America GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix Solar Overseas GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix Solar Inc., San Ramon, USA	Full consolidation	100 %
Phoenix Solar Pte Ltd., Singapore, Singapore	Full consolidation	75 %
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	Full consolidation	75 %
Phoenix Solar Philippines Inc., Manila, Philippines	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 %
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 %

In order to strengthen its operating activities in the Near East, Phoenix Solar AG (parent entity) acquired a shelf company in early June 2015. This company now carries the corporate name of Phoenix Solar Overseas GmbH, and has its corporate seat located in in Sulzemoos, Germany. The company was included in the consolidated financial statements for the first time as of June 30, 2015.

In order to establish itself on the Philippines market, the subsidiary Phoenix Solar Pte Ltd, Singapore, founded a wholly owned subsidiary, which operates under the name Phoenix Solar Philippines Inc., Manila, Philippines. The company's share capital of PHP 10,000,000 (USD 215,450 or EUR 192,586.17) was fully paid in as of September 4, 2015. The company was included in the consolidated financial statements for the first time as of September 30, 2015.

Except for the aforementioned companies, no changes have occurred to the scope of consolidation of Phoenix Solar AG since the start of 2015.

The following company was equity consolidated as an associate in the consolidated financial statements:

Company	Type of consolidation	Equity/voting rights interest	Equity 12/31/2015 k€	Profit/loss 2015 k€
Phoenix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	Equity accounted	31.2 %	494	95

Several limited commercial partnership companies for which Phoenix Solar Fonds Verwaltung GmbH acts as general partner (without holding an equity interest in any case) are not consolidated, as 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 purpose, it is not subject to any corporate law or contractual obligations to assume liability.

k€	Total assets 12/31/2015 (HGB)	Total liabilities 12/31/2015 (HGB)	Equity 12/31/2015 (HGB)	Period profit or loss 2015 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	214	5	209	49
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	214	5	209	49
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	215	6	209	50
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	209	5	204	46
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	213	6	207	49
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	210	4	206	46
Aktena 5 GmbH & Co. KG	967	849	118	– 21

k€	Total assets 12/31/2014 (HGB)	Total liabilities 12/31/2014 (HGB)	Equity 12/31/2014 (HGB)	Period profit or loss 2014 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	238	3	235	39
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	239	3	236	41
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	237	3	234	41
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	227	3	224	38
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	237	3	233	42
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	232	3	228	40
Aktena 5 GmbH & Co. KG	1.067	911	157	– 31

Application of IAS 32.18b) would require that the capital accounts of the unincorporated entities' owners be included in total liabilities. The presentation chosen corresponds to the new requirements of IAS 32 (amended) "Financial Instruments: Presentation" and IAS 1 (amended) "Presentation of Financial Statements", which as far as possible permit recognition of economic equity.

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

Company k€	Type of consolidation	Share of equity/ voting rights	Equity as of 12/31/2012	Profit/loss 2012
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, & Co. KG, Grünwald, Germany	n.a.	50 %	135	2

The shares of non-controlling interests are presented under "Other investments".

CONSOLIDATION PRINCIPLES

a) Subsidiaries

Subsidiaries are included in the parent company's consolidation scope where the Group has control of their financial and operating policies, and derives economic benefits from them, which generally arises from holding more than 50 percent of the voting rights in such companies. The existence and effects of potential voting rights that can be exercised or converted currently are taken into consideration for the purpose of evaluating control according to IAS 10 criteria.

The purchase method is applied for business combinations. The cost of an acquisition is measured at fair value of the assets transferred, the equity instruments issued, and the liabilities assumed on the date when control is gained. On initial recognition, the identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured at fair value as of the acquisition date. If the acquisition cost is higher than the Group's proportionate share of the revalued net assets, the difference is recognized as goodwill in the consolidated balance sheet; in the rare instance where acquisition cost is less than the Group's proportionate share of revalued net assets, such difference is recognized 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 enable the application of uniform accounting policies across the Group, the individual subsidiaries' recognition and measurement methods have been adapted to those of the Group.

Liabilities are consolidated in accordance with IFRS 10. This entails fully offsetting intragroup receivables and liabilities that exist between entities included in the consolidated financial statements.

Expenses and income are consolidated in accordance with IFRS 10 by offsetting intragroup expenses and income with each other from the first consolidation date.

In accordance with IFRS 10, 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 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 recognized where required.

b) Companies included for the first time

In order to strengthen its operating activities in the Near East, Phoenix Solar AG (parent entity) acquired a shelf company in early June 2015. This company now carries the corporate name of Phoenix Solar Overseas GmbH, and has its corporate seat located in in Sulzemoos, Germany.

In the interests of a successful market launch in the Philippines, the subsidiary Phoenix Solar Pte Ltd, Singapore, founded a wholly owned subsidiary, which operates under the name Phoenix Solar Philippines Inc., Manila, Philippines. The company's share capital of PHP 10,000,000 (USD 215,450 or EUR 192,586.17) was fully paid in as of September 4, 2015.

The aforementioned subsidiaries were added to the scope of consolidation in the 2015 financial year.

c) Associated companies

Associated companies comprise participating interests where the Group can exercise significant influence, even if it does not exercise control. Normally, a rebuttable presumption exists that a 20 to 50 percent investment in the equity or voting rights of a company confers significant influence. Participating interests in associates are accounted for at equity. On initial recognition as an associate, the investment in the company is measured at cost. If the acquisition cost is higher than the Group's proportionate share of equity, as remeasured at the acquisition date, goodwill is recognized in the amount of the difference. Such goodwill is not recognized until the date when the parent entity gains control, however. Any impairment losses are applied to goodwill in subsequent periods. In addition, accumulated equity changes are credited, or charged, to the investment's carrying amount in subsequent periods.

The Group's share in the associate's profit or loss is recognized and presented separately in the consolidated income statement. If the proportionate share of losses to be assumed exceeds the acquisition cost and unsecured receivables due from the associate, no further impairment losses are recognized, unless the Group assumes additional obligations from the associate.

As a matter of principle, intermediate profits and losses between the Group and the associate are eliminated in the amount of the share of equity held in the associate. For reporting purposes, uniform Group recognition and/or measurement methods are applied to associates' financial statements.

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

B. ACCOUNTING POLICIES

(1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

REVENUE RECOGNITION

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

Service revenues are recognized 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 that are incurred are recognized to the extent that they are expected to be recoverable ("zero profit method"). Where a loss is anticipated to be incurred, such losses are expensed fully.

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 according to payments received, or at the fair value of the receivable.

Interest income is accrued applying the effective interest method. Dividends are recognized when a legal claim to dividends is substantiated.

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. Accordingly, contract revenues and profits are recognized in the income statement in proportion to the stage of completion in the periods in which the work is performed. In other words, revenues and profits under fixed-price contracts are recognized on the basis of the stage of completion. They are recognized 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 cases where contract revenue cannot be estimated reliably, revenues are recognized in the amount of costs incurred that can probably be recovered (zero profit method).

Such contracts are presented as receivables and payables under long-term construction contracts. If capitalizable work performed exceeds the prepayments received, construction contracts are presented as receivables under long-term construction contracts. If the balance after deduction of prepayments received is negative, construction contracts are presented as payables under long-term construction contracts. Expected contract losses are recognized in full; identifiable risks are taken into account in determining such losses.

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 BALANCE SHEET ITEMS

INTANGIBLE ASSETS

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

Internally generated intangible assets are capitalized only when the corresponding expenditures can be attributed to the development phase of the respective intangible assets. The costs must be clearly attributable to a development from which the Group can expect to derive future economic benefits; such inflow of benefits must last longer than one financial year. In addition, the intention must exist to complete the asset, development must be technologically feasible, and the related necessary resources must be available. Production cost includes all directly allocable costs of development. Once recognized as expenses, development costs can no longer be capitalized. Until such time as the asset is completed, capitalized development costs are tested annually for impairment. As soon as the asset is ready for its intended use, internally generated intangible assets are amortized over their useful lives. Research expenditures are not capitalized, but are instead expensed 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 amortization method applied are reviewed and adjusted, when necessary, at least on every reporting date. Any such adjustment is made in connection with a change to an estimate, which is recognized 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 indefinite useful lives; depending on the results of such impairment tests, the corresponding impairment losses are expensed in the period in which they are incurred.

Intangible assets have useful lives ranging from three to fifteen 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. In application of IFRS 3 in combination with IAS 38, goodwill is not amortized. Recognized goodwill items were impairment tested at the end of the financial year; no impairment was identified in this context. 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 correspond to operating segments as the highest level.

PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16, items of property, plant and equipment are measured at cost less 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 expectations on those dates differ from previously applied estimates, corresponding adjustments are made as changes of estimates in accordance with IAS 8. 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 disassembly 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 and such components have differing useful lives, the significant individual components are depreciated over their individual useful lives. Maintenance and repair costs are recognized in profit or loss in the period in which they are incurred. Borrowing costs are capitalized 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 the asset's continued use or from its disposal, the carrying amount of that asset is derecognized. The gain or loss on the derecognition of an item of property, plant and equipment (the difference between the net selling price and the carrying amount of the asset) is recognized as other operating income or other operating expense as of the derecognition date.

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

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

An impairment test is conducted when indications exist of possible impairment to the carrying amounts of intangible assets with definite useful lives, or of property, plant and equipment. In such cases, the recoverable amount of the corresponding asset is determined in order to gage the extent of any impairment loss that might have been incurred. The recoverable amount is equivalent to fair value less costs to sell, or value-in-use, whichever is higher. Value-in-use is equivalent to the present value of the expected future cash flows. If no recoverable amount can be determined for an individual asset, it is measured for the smallest identifiable group of assets (cash-generating unit) to which the related asset 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 based on 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 its carrying amount, an impairment loss is recognized immediately in profit or loss. If the recoverable amount of an asset or cash-generating unit for which an impairment loss has been recognized is higher in subsequent periods, the previous impairment loss is reversed; the maximum carrying amount of an asset after reversal of an impairment loss is the amortized cost that would have resulted without an impairment loss. Such reversal of an impairment loss is recognized in profit or loss.

LEASES

Leases are classified as finance leases when substantially all the risks and rewards inherent in ownership of the leased asset transfer 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, taking into account contractually stipulated future changes in lease installments. This determination is made as of the date of lease inception. The corresponding payments are expensed straight-line 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 recognized appropriately as a change of estimates.

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 carry terms ranging from two to 10 years. The terms for company cars and photocopiers range from one to four years.

OTHER INVESTMENTS

Other investments comprise long-term (non-current) financial investments in equity instruments for which no active market with listed prices exists, and whose fair values cannot be determined reliably. Other investments are measured at cost, due to the range of variation of reasonable estimates of fair value, and event probabilities of differing estimates.

INVENTORIES

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

The acquisition costs of assets reported as merchandise are measured at weighted average prices.

In subsequent periods, items of reduced marketability are written down to net realizable value if it is less than cost.

The “work in progress” item comprises unfinished structures on unowned land that do not qualify for accounting treatment according to IAS 11. If net realizable value as of the reporting date does not cover production cost, the carrying amount presented in the balance sheet is written down to net realizable value.

Expenses for write-downs of trading stock are recognized under “cost of materials” in the income statement. Write-downs of “work in progress” are recognized directly in under “change in work in progress”.

Borrowing costs that are directly attributable to the acquisition or production of individual assets are capitalized as incidental acquisition costs.

PREPAYMENTS RENDERED

Prepayments rendered are recognized as non-financial assets and measured at fair value at the acquisition date, which is usually equal to the amount of monetary consideration rendered. In subsequent periods, the measurement of prepayments 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.

On initial recognition, non-derivative financial instruments are measured at fair value, taking into account transaction costs incurred as a result of their purchase. Transaction costs incurred on the purchase of financial instruments measured at fair value are expensed immediately. Non-derivative financial instruments are recognized as of the settlement date. In subsequent periods, non-derivative financial instruments are always measured at fair value or amortized cost, depending on the category to which they belong. Management determines the categorization of non-derivative financial instruments on 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:

- Financial assets held for trading (FAHfT) and financial liabilities held for trading (FLHfT) 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 recognized immediately in profit or loss.
- Held-to-maturity (HtM) financial investments are measured at amortized cost. In general, such items do not occur within the Phoenix Group.
- Loans and receivables (LaR) that are not held for trading purposes are measured at fair value on initial recognition, as a matter of principle, and at amortized cost in subsequent periods. Such assets in the Phoenix Group 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 applying the effective interest method, as a matter of principle. A risk-appropriate, standard market rate of interest was applied as the discount factor. Specific write-downs are charged – if necessary up to the full amount – against receivables that are expected to default, taking into account credit risks, interest rate risks and discount risks. General credit risk is reflected by applying write-downs based on past empirical data against the receivables portfolio, as a matter of principle. Applying the gross method, the requisite write-downs are recognized in a separate account for write-downs.
- Available-for-sale (AfS) financial assets are measured at fair value, as a matter of principle. All financial assets not classified as HtF, HtM or LaR are assigned to this category, as a matter of principle; in the Phoenix Group, this category is mainly composed of the assets presented under "Other investments". The difference between acquisition cost and fair value is recognized directly in equity, taking deferred tax into account. If such assets' fair value is permanently or materially less than their carrying amount, the impairment loss is recognized in profit or loss. Other investments for which no market prices are available and whose fair value cannot be determined reliably are measured at amortized cost. Given indications of impairment, an impairment test is conducted, and any impairment loss is recognized in profit or loss.

- Financial liabilities (AmC) are initially recognized at fair value taking transaction costs into account (fair value corresponds to acquisition cost, as a rule). In subsequent periods, such liabilities (except derivative financial instruments) are measured at amortized cost, applying the effective interest method.

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

- the rights are exercised;
- the rights expire;
- the company has relinquishes the rights or transfers them to a third party in connection with a sale;
- the contracts expire.

Both parties' legal and economic positions are taken into consideration to determine whether a loss of control has occurred. If indications exist to the effect that the Phoenix Group, as the transferring party, has retained control, the company continues to recognize the asset on its consolidated balance sheet. Any gain or loss on disposal is recognized in profit or loss.

DERIVATIVE FINANCIAL INSTRUMENTS

The Phoenix Group deploys 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 derivative financial instruments include forward exchange transactions, currency swaps and currency options, and interest rate swaps and interest rate caps. No derivative financial instruments are held or issued for speculative purposes.

In accordance with IAS 39, derivative financial instruments that are not integrated within an effective hedging relationship must be categorized as "held for trading", and consequently measured at fair value at the trade date, with fair value changes recognized in profit or loss. The fair value of traded derivative financial instruments is equivalent to market value. As a matter of principle, the Phoenix Group deploys only exchange traded derivative financial instruments. If market pricing is not possible, and consequently no market values are available, however, current market values are calculated by means of recognized finance-mathematical models, taking into account relevant exchange rates, interest rates and counterparty credit ratings. Middle market exchange rates are applied for such calculations. The Phoenix Group does not employ hedge accounting at present, so that changes in fair value of derivative financial instruments are recognized 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 recognized option pricing models. Important influencing factors include the remaining life of the option, the risk-free interest rate, the fixing rate, the current exchange rate, and volatility. The fair value of interest rate caps is calculated as the present value of future interest payments, discounted applying 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 that 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 derecognized 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 applicable 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 CAPITAL RESERVES
Equity instruments without auxiliary conditions are always reported as equity.

Costs incurred in connection with issuing equity instruments are deducted from equity along with any income tax benefit (“net of tax”).

SHARE-BASED PAYMENT TRANSACTIONS
Share-based payment transactions are accounted for in accordance with IFRS 2. Accordingly, share-based compensation is measured at the fair value of the consideration rendered, as a matter of principle. 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. As the fair value of work rendered cannot be determined, as a rule, 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 fair value is determined with reference to the date of granting of the equity instrument, on the one hand, and exclusively share-based performance targets, on the other. Associated personnel expenses are distributed straight-line over the lock-up period or vesting period, and recognized 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 balance sheet. Proportionate losses are charged to the respective non-controlling interests in proportion to their share of Group equity, even if this results in a negative balance for non-controlling interests.

PROVISIONS
In accordance with IAS 37, “other provisions” are formed 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. “Other provisions” cover all identifiable 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 formed for all identifiable risks and uncertain obligations in the amount of their probable occurrence based on best estimates. Non-current provisions are discounted to present value applying a market rate of interest. Unwinding of discounting amounts and the effects of changes in interest rates are reported within the financial result.

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

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

A reimbursement connected with a provision is capitalized as a separate asset where required, provided that collection of that amount is as good as certain. The reporting of netted amounts within provisions is not permitted. Depending on circumstances, prepayments rendered as of the reporting date are deducted from provisions.

Provided that a reliable estimate is possible, unconditional obligations resulting from site restoration of property, plant and equipment are recognized as liabilities in the period in which they are incurred, and are measured at the present value of the associated settlement amounts. The carrying amounts of the corresponding items of property, plant and equipment are also increased by the same amount. In subsequent periods, the capitalized site restoration costs are amortized over the expected remaining useful life of the corresponding asset, while the discount on the provision is unwound annually.

Changes in estimates concerning the amount or timing of cash outflows are recognized in profit or loss on every reporting date.

FINANCIAL LIABILITIES

On initial recognition, financial liabilities are measured at fair value, which is generally equivalent to the settlement amount.

Trade payables and other non-derivative financial liabilities are measured at amortized cost applying the effective interest method, as a matter of principle. The Group has not exercised the choice to designate financial liabilities as “financial liabilities at fair value through profit or loss” on initial recognition.

Financial liabilities are derecognized when the payment obligations arising from them have expired.

NON-FINANCIAL LIABILITIES

As a matter of principle, liabilities are measured at fair value, which is equal to the settlement amount in most cases. Liabilities due in more than one year are discounted to present value applying 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, where the existence of such obligations depends, however, on the occurrence of one or more uncertain future events that cannot be completely influenced. They also include existing obligations that will probably not lead to an outflow of economic benefits, or where 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 recognized on the balance sheet. Contingent liabilities related to a business combination are measured at fair value upon initial recognition.

Potential assets whose realization depends on future events that are not under the Phoenix Group's control (contingent assets) are not recognized.

INCOME TAXES

a) Current taxes on income

The tax bases for current taxes on income 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 under the items of current tax liabilities current tax assets.

Changes in current tax liabilities or assets are recognized 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 them 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 also recognized directly in equity.

b) Deferred taxes

IAS 12 requires application of the balance sheet liability method to determine deferred taxes. Accordingly, deferred tax assets and/or liabilities must be recognized for temporary differences between the tax bases and the carrying amounts of the respective assets and liabilities that will reverse in the future and generate income tax effects, as well as for consolidation transactions to be recognized in profit or loss, and for tax loss carryforwards.

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 realized 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 recognized as income or expenses and in profit or loss for the period.

The following transactions comprise exceptions to this:

- if a transaction was recognized 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 proportionate IFRS equity, if it is expected that this difference will not change in the near future, as by way of a dividend distribution, for example.

In cases when the tax arises on a business combination in the form of an acquisition, it is recognized 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 and the terms of the assets and liabilities are congruent.

Deferred tax assets are recognized 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 utilization of profit or specific dividends accessible to the public after the reporting date, such dividends are not presented as a liability as of the reporting date, because this relates to an event that is not to be taken into consideration.

(4) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions that are not denominated in 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 prevailing on the reporting date. Foreign exchange gains and losses are recognized in profit or loss. Non-monetary items (in the Phoenix Group consisting mainly of inventories and prepayments rendered on inventories) that are measured at historical cost are translated at the exchange rate on the transaction date, in accordance with IAS 21.23b).

For the purposes of preparing the consolidated financial statements, the separate financial statements of the subsidiaries Phoenix Solar Inc., Phoenix Solar Pte Ltd, Phoenix Solar Sdn Bhd, Phoenix Solar Philippines Inc., and Phoenix Solar L.L.C. are translated in accordance with the functional currency concept. The functional occurrences of these companies are the US dollar (USD), the Malaysian ringgit (MYR), the Philippine peso (PHP) and the Omani rial (OMR), respectively; the corresponding items are translated into euros (EUR) for purposes of their inclusion in the consolidated financial statements. With the exception of equity, items presented on the balance sheet 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 respective month-end dates. Equity is carried forward on the basis of the exchange rate applied on initial recognition. The currency difference resulting from the translation of equity is recognized not in profit or loss, but instead directly in the “currency translation reserve”, and presented separately in the balance sheet.

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2015	Average exchange rate in 2015	Exchange rate on reporting date 2014	Average exchange rate in 2014
USD / EUR	1.09254	1.11040	1.21548	1.32898
OMR / EUR	0.41921	0.42618	0.46650	0.51006
PHP / EUR	51.18130	50.44537		
SGD / EUR	1.54468	1.52533	1.60806	1.68250
MYR / EUR	4.69157	4.32554	4.25182	4.34495
SAR / EUR	4.09727	4.16330	4.56043	4.98396
TRY / EUR	3.18184	3.01983		
BGN / EUR	1.95506	1.95873	1.95506	1.95873

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement was prepared applying the nature of expense method.

(1) AMENDMENTS TO PREVIOUS YEAR’S FIGURES AND PRESENTATIONS

The German Financial Reporting Enforcement Panel (FREP) has subjected the consolidated financial statements as of the December 31, 2014 reporting date and the Group management report for the 2014 financial year of Phoenix Solar AG, Sulzemoos, to a review, which has not yet been concluded. To date, the FREP has made provisional identification of the following findings:

- The O&M business that was divested was not to be treated as discontinued operations as of December 31, 2014 pursuant to IFRS 5, because the criteria of IFRS 5 App. A as well as IFRS 5.32 et seq. were not met.
- The presentation of a second income statement comprising the discontinued operations, and numerous references in the consolidated financial statements to the discontinued operations, are erroneous. This infringes IFRS 5.30 et seq. as well as IAS 1.10 (b) and IAS 1.15.

This preliminary finding has been reflected insofar as the previous year’s figures and the previous year’s presentation have been restated or adjusted to take the regulations of IAS 8 into account. For this reason, the second income statement and section C.1 “Profit/loss from discontinued activities” as presented in the consolidated financial statements as of December 31, 2014 were withdrawn.

The discontinued operations were presented separately in the segment reporting section of the 2014 annual report. As the disposal of the O&M business did not comprise such an operation in the meaning of IFRS 5 App. A and IFRS 5.32, a restatement was made applying the regulations of IAS 8.41 et seq. Following the amendment, the figures presented separately for the discontinued operations are attributed to the Power Plants segment.

The Phoenix Group segment reporting items for the January 1, 2014 to December 31, 2014 period affected by this are presented below:

k€	Power Plants before amendment	Amendment	Power Plants after amendment
Segment income statement			
External revenues	12,367	+ 4,091	16,458
Segment revenues	12,367	+ 4,091	16,458
Segment profit or loss	– 8,367	+ 5,840	– 2,527
EBIT	– 8,328	+ 5,840	– 2,488
Consolidated profit/loss before taxes	0	+ 5,840	5,840
Income taxes	0	– 1,559	– 1,559
Other information			
Capital expenditures	664	+ 46	710
Amortization, depreciation and impairment losses	1,158	+ 127	1,285
Non-cash income	3,091	+ 127	3,218
Assets			
Segment assets	13,608	+ 4,502	18,110
Consolidated assets	14,005	+ 4,502	18,507

In addition, incoming payments from the disposal of parts of companies pursuant to IAS 7.39 are to be reported in the cash flow statement under cash flow from operating activities. By way of divergence from the applicable regulation, the O&M business that was sold in the 2014 financial year was recognized in an amount of kEUR 4,533 as cash flow from operating activities (as part of the consolidated pretax result). For this reason, corresponding amendments were made to the 2014 comparable figures in the 2015 consolidated financial statements applying IAS 8.41 et seq.

The Phoenix Group cash flow statement items for the January 1, 2014 to December 31, 2014 period affected by this are presented below:

k€	before amendment	Amendment	after amendment
Consolidated net profit/loss before income taxes	– 9,741	– 4,533	– 14,274
Funds generated by operating activities	**1,602**	**– 4,533**	**– 2,931**
Cash flow from operating activities	**– 3,947**	**– 4,533**	**– 8,480**
Proceeds from the divestiture of parts of companies	0	4,533	4,533
Cash flow from investing activities	**– 847**	**4,533**	**3,686**

(2) REVENUES

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

Revenues k€	2015	2014
Components & Systems	5,955	17,325
Power Plants	113,452	16,458
Total	**119,407**	**33,783**

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 (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 111,627 (previous year: kEUR 12,557).

(3) OTHER OPERATING INCOME

Other operating income k€	2015	2014
Income from payment of claims for damages	0	2
Electricity revenues	2,177	2,080
Income from reversal of provisions and liabilities	1,371	2,539
Income from reversal of impairment losses	122	819
Income from foreign exchange gains	70	154
Benefits in kind*	0	48
Income from the divestiture of O&M business operations	0	4,533
Income from disposal of property, plant and equipment	0	128
Miscellaneous	1,584	1,391
Total	**5,324**	**11,694**

* For the first time in the reporting year, income in kind (kEUR 23) was directly offset with the related personnel expenses.

Electricity revenues in the financial year relate to feed-in tariffs from photovoltaic plants in Italy and France that were reclassified to property, plant and equipment 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 realization of the forward currency, swap and option transactions serving as hedges for such transactions.

The income from the release of provisions and liabilities pertained to a large number of provisions formed in previous years that have not been fully consumed. During the financial year at the Phoenix Solar Group, primarily provisions for warranties were released in an amount of kEUR 275 due to settlement agreements that had been included, as well as in an amount of kEUR 219 due to the related warranties having expired. In addition, provisions for pending losses on rental contracts of kEUR 221 were released through profit or loss at Phoenix Solar AG.

Income from the reversal of impairment losses resulted from the reversal of an impairment loss recognized in prior periods due to the receipt of cash flows in respect of the impaired asset, and from a changed estimate of the value retained by assets as of the reporting date.

Miscellaneous operating income comprised items that cannot be assigned to any of the aforementioned items.

(4) PURCHASED GOODS AND SERVICES

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

Purchased goods and services k€	2015	2014
Expenses for purchased goods	106,191	24,276
Expenses for purchased services	3,234	3,774
Total	**109,425**	**28,050**

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.

(6) PERSONNEL EXPENSES

The personnel expenses are composed as follows:

Staff costs k€	2015	2014
Wages and salaries*	6,518	8,110
Social security charges	1,107	1,465
Expenses for pensions and benefits	1	3
Total	**7,626**	**9,578**

* For more information about the first-time offsetting of “income in kind”, please refer to the footnote below the table in section C.4 – Other operating income.

Since July 1, 2008, the company has offered all its employees a defined contribution pension plan based on deferred compensation. 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 1 (previous year: kEUR 3) was recognized in profit and loss in the financial year elapsed. The Group has not entered into any defined benefit pension commitments.

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

Personnel expenses as of the previous year’s reporting date include restructuring expenses totaling kEUR 543 that resulted from the closure of loss-making areas in the domestic business.

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

Employees (m/w)	2015	2014
Executive Board members (parent company)	3	2
Permanent staff (m/f) (full-time and part-time)	86	111
Temporary help staff	2	5
Total	**91**	**118**

(6) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization and depreciation amounted to kEUR 1,366 in the financial year under review (previous year: kEUR 1,569).

A detailed presentation of depreciation and amortization can be found in the statement of changes in non-current assets (note 15).

(7) OTHER OPERATING EXPENSES

Other operating expenses k€	2015	2014
Administrative costs	4,073	5,501
Selling and operating expenses	2,905	3,407
Miscellaneous expenses	939	2,027
Total	**7,917**	**10,935**

The kEUR 3,018 decline in other operating expenses is mainly due to the implementation of further cost-reducing measures across the entire Group.

The administrative costs recognized in the financially under review mainly comprise expenses for the Executive and Supervisory boards, as well as for the areas of finance, personnel, legal and compliance.

Selling and operating costs include expenses for the realization of sales functions in the various regions, especially for sales commissions, transportation and transport insurance, freight, customer advice, as well as for advertising, including visits to exhibitions and trade fairs, the processing of queries and orders, calculating offers, invoicing, the invoice reminder system, as well as managing the entire process. The cost building blocks also include expenses connected with maintaining the operating activities of the Phoenix organization.

No research and development costs were expensed during the 2015 financial year (previous year: kEUR 0).

(8) RESULT FROM ASSOCIATED COMPANIES

Income from associated companies amounted to kEUR 24 in the financial year (previous year: kEUR 39).

(9) FINANCIAL RESULT

The financial result improved by kEUR 759 year-on-year. Interest expenses of kEUR 4,464 (previous year: kEUR 5,271) consisting mainly of financing loans were offset by interest income of kEUR 98 (previous year: kEUR 146) generated primarily by call accounts. No interest on qualified assets was capitalized, either in the financial year under review or in the prior year.

(10) INCOME TAXES

Income taxes comprise both current taxes on income, as well as deferred taxes, and are composed as follows:

Taxes on income **k€**	**2015**	**2014**
Current taxes	183	681
Deferred taxes	– 500	– 255
Total	**– 317**	**426**

The income tax income reported in the 2015 financial year amounting to kEUR 317 (previous year: income tax expense of kEUR 426) is kEUR 1,271 lower than the expected income tax income of kEUR 1,588 (previous year: kEUR 2,601) that would theoretically result from applying an unchanged domestic tax rate of 26.7 percent (previous year: 26.7 percent) to the Group's pretax earnings.

k€	**2015**	**2014**
Current-year income taxes	183	278
Prior years' income taxes	0	403
Total	**183**	**681**

The difference between the expected and recognized income tax income/expenses is attributable to the following causes:

Reconciliation **k€**	**2015**	**2014**
Earnings before income taxes	– 5,946	– 9,741
Reported tax income (previous year: tax expense)	**– 317**	**426**
Income taxes computed applying arithmetic tax rate of 26.7 % (previous year: 26.7 %)	– 1,588	– 2,601
Difference	**1,271**	**3,027**
Clarification of differences:		
- Income taxes relating to other reporting periods	65	403
- Tax effect deriving from differing tax rates	– 58	– 2,958
- Tax effect arising from other non-deductible expenses	67	179
- Tax effect deriving from differing tax rates	274	– 399
- Tax effect arising from the application of tax losses (–) that were not previously recognized, and from the non-recognition of losses (+)	922	3,223
- Tax effect due to differing measurement bases	4	– 156
- Tax effects arising from consolidation	– 1	2,745
- Other differences	– 2	9
Total	**1,271**	**3,027**

The calculated income tax rate resulted from German trade tax (10.92 percent), the application of the corporate income tax rate (15 percent) and the Solidarity Surcharge (5.5 percent of corporate income tax).

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

CURRENT TAX LIABILITIES AND TAX REFUND ASSETS

The net balance as of the balance sheet date comprises current tax receivables in an amount of kEUR 857 (previous year: kEUR 791), and current tax liabilities of kEUR 67 (previous year: kEUR 54).

Income tax expenses and income are composed as follows:

Taxes on income **k€**	**2015**	**2014**
Current taxes	183	681
- of which in Germany	28	327
- of which abroad	155	354
Deferred taxes	– 500	– 255
- of which in Germany	0	27
- of which abroad	– 500	– 282
Total	**– 317**	**426**

Deferred are attributed to the following balance sheet items:

Deferred taxes by item **k€**	**Balance as of 01/01/2015**	**Deferred taxes[1]**	**Balance as of 12/31/2015**
Capitalized loss carryforwards	769	– 628	1,397
Measurement of provisions	123	– 23	146
Internally generated intangible assets	24	24	0
PoC measurement of construction contracts	1	1	0
Measurement of other assets	240	136	104
Other/consolidation	139	– 72	211
Total	**1,246**	**– 612**	**1,858**

[1] Of the changes in deferred taxes in the financial year under review and in previous years, an amount of k€ 500 was to be recognized in profit or loss. Of the reported changes, an amount of k€ 112 relates to currency translation differences that are not to be recognized in profit or loss.

Overall, no deferred taxes were offset with each other (previous year: kEUR 0).

Of the deferred tax relating to tax loss carryforwards, an amount of kEUR 1,397 is attributable exclusively to foreign loss carryforwards (previous year: kEUR 769). The increase in deferred tax on such foreign loss carryforwards derives from a detailed analysis of the allocation of value-retaining deferred tax assets in the USA relating to differences or tax loss carryforwards. No deferred tax assets were formed in relation to tax loss carryforwards of kEUR 147,771 (previous year: kEUR 141,183), as it is to be assumed that the tax loss carryforwards probably cannot be utilized as part of tax earnings planning. Due to the recalculation of the measurement basis (loss carryforwards), the previous year’s figures were restated accordingly. After consolidation measures, deferred tax assets after offsetting amount to kEUR 1,858 as of the balance sheet date (previous year: kEUR 1,246).

Loss carryforwards with a maximum expiration period of five years were recognized in the amount of kEUR 239 (previous year: kEUR 247); loss carryforwards with a maximum expiration period of twenty years were recognized in the amount of kEUR 1,158 (previous year: kEUR 522).

As in previous years, no deferred taxes were formed in the financial year under review for outside basis differences, as the majority of the subsidiaries possessed no distributable net assets as of the balance sheet date. Where distributable profits exist at subsidiaries, they are currently being deployed for the internal financing of the respective subsidiary. Outside basis differences were measured in an amount of kEUR 3,585 as of December 31, 2015 (previous year: kEUR 6,657).

(12) EARNINGS PER SHARE

In accordance with IAS 33, earnings per share are calculated by dividing the consolidated profit after taxes and after deducting non-controlling interests by the average number of shares outstanding during the financial year under review.

Basic earnings per share	2015	2014
Consolidated profit after taxes, in k€	– 5,223	– 10,170
in issue (number of individual shares)	7,372,700	7,372,700
Basic earnings per share (in €)	**– 0,71**	**– 1,38**

For purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the number of potentially dilutive shares. The number of potentially dilutive 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 Phoenix Solar Group stock option plan potentially results in such dilution. The exercise of the stock options granted in connection with these plans depends on the price performance of the shares of Phoenix Solar AG. Certain performance criteria that are defined in the stock option plan are applied to calculate the share price performance. Note 41 includes a detailed description of the Phoenix Group's stock option plan. The following table shows the underlying calculation of potential dilution. As effects arising from potentially diluted shares arose neither in 2014 nor in the previous year, basic earnings per share do not differ from diluted earnings per share.

Diluted earnings per share	2015	2014
Consolidated profit after taxes, in k€	– 5,223	– 10,170
Average number of shares in issue (number of individual shares)	7,372,700	7,372,700
Average number of shares in issue (including potentially dilutive shares)	7,372,700	7,372,700
Diluted earnings per share (in €)	**– 0.71**	**– 1.38**

As of December 31, 2015, after partial utilization, authorized capital existed in the amount of kEUR 2,681 (previous year: kEUR 2,681), which is unchanged from the previous year and which was not included in the calculations, however, as no dilutive effect arises from it during the period under review.

The consolidated loss incurred in 2015 has been added to accumulated other comprehensive income as of December 31, 2015. In this year, too, the Executive Board of Phoenix Solar AG does not propose the distribution of a dividend.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(12) INTANGIBLE ASSETS

The consolidated statement of changes in non-current assets shows the changes in the carrying amounts of non-current assets (note 15).

Amortization is reported under the “depreciation and amortization” item in the income statement.

Significant intangible assets k€	Carrying Amount as of 12/31/2015	Carrying Amount as of 12/31/2014	Remaining Amortization period
of ERP software	178	309	1 year
“Phoenix” Trademark	64	64	2 years

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

Acquired intangible assets are amortized applying useful lives of between two and ten years.

(13) GOODWILL

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

As of January 1, 2008, the initial consolidation of the company Renewable Energies Development 2002 (RED 2002) S.r.l. in Rome, which had previously been equity accounted, generated goodwill in the amount of kEUR 235.

In 2012, an impairment loss of kEUR 235 was applied to this goodwill. The goodwill items recognized as of the reporting date required no impairment losses, even assuming that the revenues of a cash-generating unit were to be five percent less, or that interest rates were to be ten percent higher. The Phoenix Group conducts the annual goodwill impairment test at the level of the cash-generating units in the fourth quarter of every financial year in local currency.

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

Goodwill **k€**	**12/31/2015**	**12/31/2014**
Power Plants	272	272
Components & Systems	0	0
Miscellaneous	26	26
Total	**298**	**298**

In accordance with IFRS 3 in conjunction with IAS 38, goodwill is not amortized. Instead, an annual impairment test is conducted to review whether goodwill has retained its value. In addition, the carrying amounts of cash-generating units are compared with their capitalized value of potential earnings. The capitalized value of potential earnings is calculated applying the discounted cash flow method. For this purpose, current forecasts are applied 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 which are also used for internal purposes. Significant assumptions on which the management bases its calculation of recoverable amounts 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 expected cash flows in the three-year medium-term planning deriving from the cash-generating units are discounted applying the weighted average cost of capital before tax (pretax WACC). Depending on country, the pretax WACC varies between 11.5 percent and 20.8 percent (previous year: 10.3 percent and 19.3 percent). An unchanged growth factor of one percent was imputed to calculate the perpetual return. An impairment loss is deemed to have occurred when the capitalized value of potential earnings is less than the carrying amount.

(14) PROPERTY, PLANT AND EQUIPMENT

The consolidated statement of changes in non-current assets presents the changes in carrying amounts (note 16) The Group opted to not present separately the additions and disposals resulting from the change in the scope of consolidation, because such transactions in connection with shell companies are immaterial for the presentation of the net assets position of the overall Group.

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

The unchanged depreciation periods for operational and office equipment range from three to twelve years; for leasehold improvements, depreciation periods of eleven to fifteen 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 twenty years.

(15) CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

Changes in non-current assets within the Phoenix Solar Group

2015 k€	Cost Balance as of 01/01	Addition in financial year	Disposal in financial year	Currency translation	Balance as of 12/31
Internally generated intangible assets	131	0	0	– 22	109
Purchased intangible assets	6,071	78	51	0	6,098
Goodwill	533	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	15,069
Operational and business equipment	3,946	118	694	128	3,498
Leasehold improvements	1,284	0	0	0	1,284
Total non-current assets	**27,034**	**196**	**745**	**106**	**26,591**
2014 **k€**	**01/01/**				**12/31**
Internally generated intangible assets	128	0	0	3	131
Purchased intangible assets	6,692	19	640	0	6,071
Goodwill	533	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	15,069
Operational and business equipment	3,798	869	769	48	3,946
Leasehold improvements	1,284	0	0	0	1,284
Total non-current assets	**27,504**	**888**	**1,409**	**51**	**27,034**

(16) INVESTMENTS IN ASSOCIATES

As an associate, Phönix SonnenFonds GmbH & Co. KG B1 (KG B1) is equity accounted.

The following changes occurred to carrying amounts in the financial year under review:

k€	2015	2014
Carrying amount at 01/01	397	397
– Dividend payment	– 34	– 39
+ Profit shares	24	39
Carrying amount at 12/31	**387**	**397**

Accumulated Amortisation and Depreciation						
Balance as of 01/01	Addition Depreciation/ amortization	Disposal in financial year	Currency translation	Balance as of 12/31	Carrying amounts 12/31/2015	Carrying amounts 12/31/2014
131	0	0	– 22	109	0	0
5,699	203	51	0	5,851	247	372
235	0	0	0	235	298	298
1,969	786	0	0	2,755	12,314	13,100
2,610	323	571	37	2,452	1.100	1.336
942	54	0	0	942	287	341
11,585	**1,366**	**622**	**15**	**12,345**	**14,246**	**15,448**
01/01				**12/31**	**12/31/2014**	**12/31/2013**
125	0	0	6	131	0	3
5,901	426	628	0	5,699	372	791
235	0	0	0	235	298	298
1,183	786	0	0	1,969	13,100	13,886
2,899	357	676	29	2,610	1,336	899
942	0	0	0	942	341	341
11,285	**1,569**	**1,304**	**35**	**11,585**	**15,448**	**16,218**

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

Summarized financial information about associates k€	2015	2014
Assets	506	546
Liabilities & provisions	11	5
Revenues	185	168
Equity*	495	541
Total assets	506	546
Net profit for year	**96**	**83**

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

(17) OTHER INVESTMENTS

The “other investments” item in the financial year under review contains only the 50 percent interest in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. that was founded in the 2007 financial year. In 2015, it reported assets of kEUR 446 (previous year: kEUR 453), liabilities and provisions of kEUR 310 (previous year: kEUR 319), unchanged sales revenue of kEUR 0 (previous year: kEUR 0) and a pretax result of kEUR - 2 (previous year: kEUR - 6). Other investments are not consolidated due to a lack of effective significant influence. As no active market exists for trading in the investment, and fair value can also not be measured reliably by other means, the carrying amount of kEUR 150 (previous year: kEUR 150) corresponds as far as possible to fair value. No intention currently exists to sell the investment.

(18) NON-CURRENT RECEIVABLES

The item of non-current receivables includes, firstly, a purchase price receivable in an unchanged amount of kEUR 450 that has been deferred until December 31, 2023. It bears interest at 5.5 percent p.a. until December 31, 2015, and at 6.0 percent p.a. from January 1, 2016 to the date of payment in full.

This item also included rental deposits in the amount of kEUR 17 (previous year: kEUR 24). The rental deposits incur interest at standard market rates of 0.1 percent p.a.

(19) INVENTORIES

Inventories are comprised as follows:

Inventories k€	12/31/2015	12/31/2014
Merchandise (historical value of goods)	4,314	3,454
Write-downs (cumulative)	– 2,362	– 1,387
Net merchandise value	1,952	2,067
Valuation recognized on balance sheet	**1,952**	**2,067**

Merchandise inventory consists mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering, which are usually held for less than one full financial year. As in the previous year, no merchandise was in transit as of the balance sheet date.

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 their lower net realizable value less costs to sell. Write-downs during the financial year in an amount of kEUR 42 were added to cumulative write-downs (previous year: write-ups of kEUR 233).

Purchased merchandise was expensed in an amount of kEUR 106,191 in the period under review (previous year: kEUR 24,336).

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

(20) PREPAYMENTS RENDERED

The prepayments rendered item consists mainly of payments to subcontractors and suppliers that are secured by guarantees. All such payments are short-term, mostly project-related prepayments.

(21) RECEIVABLES AND PAYMENTS ARISING FROM LONG-TERM CONSTRUCTION CONTRACTS

As of the reporting date, gross receivables under long-term construction contracts amounted to kEUR 6,471 (previous year: kEUR 1,026). The receivables relate predominantly to projects in the USA, Malaysia and Singapore. In the period from January 1 to December 31, 2015, contract revenues totaling kEUR 111,627 (previous year: kEUR 12,557), cumulative contract costs for the construction contracts that are still running as of the reporting date of kEUR 94,124 (previous year: kEUR 11,627) and accumulated reported gains of kEUR 9,306 (previous year: kEUR 1,407) were recognized. Gains in the year under review included no foreign currency effects (previous year: kEUR 0). In addition, liabilities under long-term construction projects were recognized in the amount of kEUR 8,631 (previous year: kEUR 346).

Advance payments on the contracts totaling kEUR 106,786 (previous year: kEUR 15,226) were received and a further kEUR 2,552 (previous year: kEUR 47) was requested.

Taking into account the requested and recognizable prepayments and partial invoices, the reported amount of kEUR 6,471 (previous year: kEUR 1,026) is composed as follows:

k€	12/31/2015	12/31/2014
Receivables under long-term construction contracts taking into account partial invoices based on stage of completion	3,919	908
Plus requested, recognizable partial invoices	2,552	118
Valuation recognized on balance sheet	**6,471**	**1,026**

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

k€		Expected receipt of payment			
As of 12/31/2015	**Carrying amount**	**In less than als 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**in over 360 days**
Receivables from long-term construction contracts	6,471	0	1,229	5,242	0
As of 12/31/2014					
Receivables from long-term construction contracts	1,026	0	569	457	0

Receivables under long-term construction contracts are secured by obligatory contractor's liens and standard agreed prepayments for milestones, and by standard financing commitments from customer-financing banks, bank guarantees and, where applicable, security deposits. Furthermore, standard retention-of-title arrangements apply to unpaid materials.

(22) TRADE RECEIVABLES

Trade receivables are composed as follows:

Trade receivables k€	12/31/2015	12/31/2014
Gross receivables	14,671	15,170
Less write-downs	– 4,754	– 4,813
Valuation recognised on balance sheet	**9,917**	**10,357**

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

The following breakdown shows the maturity structure of the receivables excluding write-downs. In other words, in contrast to the analysis of receivables under long-term construction contracts (note 21), the time bands shown represent overdue payments for receivables already realized on the reporting date, but not written down.

k€		Not written down and due on reporting date				
As of 12/31/2015	**Total**	**neither written down nor due**	**for less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**for over 360 days**
Trade receivables	9,917	6,448	131	343	0	2,995
As of 12/31/2014						
Trade receivables	10,357	2,782	1,648	1,092	242	4,593

The write-downs charged against trade receivables that are attributable to the measurement "loans and receivables" category reported the following changes in the year under review:

k€	2015	2014
Write-downs as per 01/01	4,813	5,337
Exchange rate differences	231	0
Consumption	0	– 488
Release	– 351	– 893
Addition	61	856
Write-downs as per 12/31	**4,754**	**4,813**

The following table shows the expenses for the complete derecognition of trade receivables:

k€	2015	2014
Expenses for the derecognition of receivables	4	890

Expenses for the derecognition of receivables are recognized 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 proportionate fulfillment from an insolvency estate.

(23) OTHER FINANCIAL ASSETS

a) Other non-current financial assets

Phoenix Solar AG granted its participating interest SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG a final maturity loan of kEUR 1,047 at 6.5 percent interest until September 30, 2012, and with a term until the end of 2013. This loan was paid down to an amount of kEUR 114 by December 31, 2015. On the basis of an agreement reached in December 2012, the interest rate was reduced to 0.0 percent from October 1, 2012.

The remaining amount relates to security deposits paid which are deposited in favor of Phoenix Gruppe AG with renowned banks at standard market interest rates.

b) Other current financial assets

Other current financial assets are composed as follows:

Other current financial assets k€	12/31/2015	12/31/2014
Other receivables	2,062	1,634
Prepayments	708	1,699
Debit balances in supplier accounts	217	247
Miscellaneous	17	5
Total	**3,004**	**3,585**

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

c) The following tables show the expected receipts of payment for other financial assets:

k€		Expected receipt of payment			
As per 12/31/2015	**Carrying amount**	**In less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**In over 360 days**
Financial assets	3,148	818	908	1,278	144
Residual term up to 1 year	3,004	818	908	1,278	0
Residual term longer than 1 year	144	0	0	0	144
As per 12/31/2014					
Financial assets	3,585	60	2,121	1,036	368
Residual term up to 1 year	3,217	60	2,121	1,036	0
Residual term longer than 1 year	368	0	0	0	368

(24) INFORMATION ON FINANCIAL INSTRUMENTS BY CATEGORY

The table below presents the carrying amounts and fair values of individual financial assets and liabilities by category of financial instrument.

2015 k€	Measurement category per IAS 39	Carrying amounts	Fair value	Level as per IFRS 13
Other investments	AfS	151	151	–
Non-current receivables	LaR	467	214	2
Other non-current financial assets	LaR	144	87	2
Receivables from long-term construction contracts	LaR	6,471	6,471	–
Trade receivables	LaR	9,917	9,917	–
Other current financial assets		3,004	3,004	–
– Derivatives	HfT	16	16	2
– Miscellaneous other financial assets	LaR	2,988	2,988	–
Cash and cash equivalents	LaR	4,875	4,875	–
Total assets		**25,029**	**24,719**	–
Non-current financial liabilities	AmC	39,059	41,755	2
Current financial liabilities	AmC	0	0	–
Total financial liabilities		**39,059**	**41,755**	–
Liabilities arising from long-term construction contracts	AmC	8,631	8,631	–
Trade payables	AmC	9,496	9,496	–
Other financial liabilities		1,062	1,062	–
– Derivatives	HfT	17	17	2
– Miscellaneous other financial liabilities	AmC	1,045	1,045	–
Total financial liabilities		**19,189**	**19,189**	–

2014 **k€**	**Measurement category per IAS 39**	**Carrying amounts**	**Fair value**	**Level as per IFRS 13**
Other investments	AfS	151	151	–
Non-current receivables	LaR	474	474	2
Other non-current financial assets	LaR	138	138	2
Receivables from long-term construction contracts	LaR	1,026	1,026	–
Trade receivables	LaR	10,357	10,357	–
Other current financial assets		3,585	3,585	–
– Derivatives	HfT	100	100	2
– Miscellaneous other financial assets	LaR	3,485	3,485	–
Cash and cash equivalents	LaR	3,114	3,114	–
Total assets		**18,845**	**18,845**	–
Non-current financial liabilities	AmC	38,590	39,766	2
Current financial liabilities	AmC	1	1	–
Total financial liabilities		**38,591**	**39,767**	–
Liabilities arising from long-term construction contracts	AmC	346	346	–
Trade payables	AmC	2,469	2,469	–
Other financial liabilities		1,085	1,085	–
– Derivatives	HfT	0	0	2
– Miscellaneous other financial liabilities	AmC	1,085	1,085	–
Total financial liabilities		**3,900**	**3,900**	–

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 applying an appropriate discount factor for the relevant maturity, updated at the reporting date, taking into account the counterparty's credit rating. Exchange listed prices are applied as fair value, where available.

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 do not differ significantly from fair value.

Derivatives not used for hedging are already measured at fair value.

Expenses, income, losses and gains from financial instruments are attributable to the following categories:

2015 k€	LaR	AmC	AfS	HfT	Total
Interest income	98	0	0	0	98
Interest expenses	0	– 4,464	0	0	– 4,464
Net interest result	**98**	**– 4,464**	**0**	**0**	**– 4,366**

2014 k€	LaR	AmC	AfS	HfT	Total
Interest income	146	0	0	0	146
Interest expenses	0	– 5,271	0	0	– 5,271
Net interest result	**146**	**– 5,271**	**0**	**0**	**– 5,125**

(25) OTHER NON-FINANCIAL ASSETS

Other non-financial assets of kEUR 4,233 (previous year: kEUR 6,376) primarily comprise foreign VAT receivables in an amount of kEUR 2,442 (previous year: kEUR 4,827).

(26) CASH AND CASH EQUIVALENTS

Cash and cash equivalents, to the extent that they are available within three months, are presented below:

Cash and cash equivalents k€	12/31/2015	12/31/2014
Cash at banks	4,875	3,114
Total	**4,875**	**3,114**

Cash on hand and cash at banks are stated at face value. Cash funds are not subject to any restrictions on disposal.

Cash on hand and cash at banks denominated in foreign currency are translated to the reporting currency at the middle market exchange rate on the reporting date. Measurement differences between cost and current market values are recognised as other operating income or other operating expenses.

During the 2014 financial year, the interest rates for bank deposits lay between 0.00 percent and 0.05 percent (previous year: 0.05 percent and 0.1 percent).

(27) EQUITY

The consolidated statement of changes in equity shows the changes in equity items.

The share capital as of December 31, 2015, amounted to kEUR 7,372.7 (previous year: kEUR 7,372.7), which was divided into 7,372,700 (previous year: 7,372,700) no-par bearer shares (ordinary shares), and which was fully paid in as of the consolidated balance sheet date.

By resolution of the Annual General Meeting of July 14, 2011, the Executive Board was authorized to annul, to the extent it will not have been utilized, the authorization granted to the Executive Board by the Annual General Meeting of June 16, 2010, which was limited in time until June 15, 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 non-cash capital contributions, on one or more occasions (Authorized Capital 2010, which still amounts to EUR 2,681,050.00 after partial utilization). In addition, the Executive Board was authorized 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 non-cash capital contributions on one or more occasions in the period until July 13, 2016 (Authorized Capital 2011). Subscription rights must be granted to the shareholders as a matter of principle. The new shares may also be underwritten by one or more banks, with the obligation to offer them to the shareholders for subscription.

In this connection, the Executive Board was authorized to decide on the exclusion of the shareholders' subscription rights, with Supervisory Board assent. With Supervisory Board assent, it can exclude subscription rights

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. This authorization is nevertheless subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorization under exclusion of subscription rights pursuant to Sections 203 (1), 186 (3) Clause 4 of the German Stock Corporation Act (AktG) 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 comprised of shares that are sold during the term of this authorization pursuant to Sections 71 (1), No. 8 Clause 5, 186 (3) Clause 4 of the German Stock Corporation Act (AktG), and the percentage comprised of shares that are, or are to be, issued to service option or conversion rights, or to fulfill option or conversion rights arising 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 subscription rights in analogous application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG);

b) in order to implement capital increases against non-cash capital contributions, especially for the purpose of acquiring companies, parts of companies, and/or interests in companies. This authorization is nevertheless 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 Shareholders' 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 authorized to set, with the consent of the Supervisory Board, the further particulars of the respective capital increase and the terms and conditions of the share issue. The Supervisory Board is authorized to reword the articles of incorporation to reflect the extent of the capital increase, and following the expiration of the authorization period.

The capital reserve consists of issue premiums paid in connection with capital increases and the recognition of stock options. The eighth capital increase that was conducted on July 13, 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 that was appropriated to share capital, and the net capital increase costs of kEUR 314.7, the capital reserves were increased by kEUR 20,461.5. An additional amount of kEUR 33.0 consisting of premiums resulted from the exercise in the 2010 financial year of 1,800 stock options issued in 2007; no stock options were exercised in the years 2011 to 2015.

The Annual General Meeting of July 7, 2006, passed a resolution 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. Conditional Capital of kEUR 553 was created for this purpose. As part of this authorization, the Executive Board of Phoenix Solar AG established a Stock Option Plan on September 10, 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, 286,850 of those stock options had expired due to the individuals concerned having left the company, and 18,000 had been exercised. As a consequence, 35,500 stock options exist 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 has not been terminated by either party at the time of exercise of the stock options. The stock option plan was terminated following a resolution passed by the Annual General Meeting on July 14, 2011, and the Conditional Capital was duly canceled.

The Executive Board passed a resolution not to distribute a dividend for the 2015 financial year.

Accumulated other comprehensive income reported the following changes in the 2015 financial year:

k€	
Balance at 01/01/2015	– 75,154
Currency difference	256
Other corrections of results carried forward	– 68
Consolidated net loss for financial year 2015	– 5,223
Balance at 12/31/2014	**– 80,189**

The non-controlling interests in the consolidated equity reported on the balance sheet relate to the direct interests in Phoenix Solar Pte Ltd., Singapore, and Phoenix Solar L.L.C., Muscat, Oman, and the indirect interests in Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia, and Phoenix Solar Philippines Inc., Manila, Philippines.

INFORMATION ABOUT CAPITAL MANAGEMENT

Phoenix Solar AG undertakes capital management on a centralized basis for both the Phoenix Solar Group and its subsidiaries from Group headquarters in Sulzemoos.

The Executive Board's aim and principle is to provide the liquidity that the Group requires for its operating business and for the growth that it continues to budget, and to thereby ensure compliance with the covenants relating to the credit lines provided as part of the syndicated financing facility.

On this basis, the management of working capital, in particular, assumes a central role within capital management. Specifically, this means that topics are also discussed at Executive Board level such as stock building, term analysis of receivables, and the cash flows at the subsidiaries. Such discussions are held at regular, mostly monthly, meetings, together with the management teams from the national companies.

The Group equity ratio stood at - 14.1 percent as of December 31, 2015 as a result of the loss-making situation over the past years (December 31, 2014: - 3.5 percent). As the Group does not comprise a legally independent company itself, this negative equity ratio generates no direct going concern risk for the Group.

Solely the equity transferred from Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code (HGB)), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 6.6 million as of December 31, 2015, equivalent to a 12.3 percent equity ratio (December 31, 2014: EUR 11.0 million, equivalent to a 20.0 percent equity ratio). In order to strengthen the parent company's equity structure, in January 2014 an intragroup transfer of the shares in the subsidiary Phoenix Solar Inc., San Ramon/USA, to an interim holding company was implemented as part of a non-cash capital contribution.

In March 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30, 2018. The new financing facility comprises a reduced volume totaling around EUR 101 million (December 31, 2015: EUR 116 million), and consists of a syndicated loan of EUR 85.4 million (December 31, 2015: almost EUR 93 million), as well as other bilateral cash and bill guarantee lines.

(28) FINANCIAL LIABILITIES

Financial liabilities are presented with the following terms:

k€			
as per 12/31/2015	**Carrying amount/ fair value**	**Residual term up to 1 year**	**Residual term 1 to 5 years**
Financial liabilities	39,059	0	39,059
as per 12/31/2014			
Financial liabilities	38,591	1	38,590

The credit lines from the Group financing facility that has been running to date carry a final maturity as of September 30, 2016 on the basis of the term agreed to date. Owing to the contractual amendment signed in March 2016 concerning an extension of the existing loan agreement, and the now amended final due date of September 30, 2018, the bank borrowings are also reported as non-current as of December 31, 2015.

Note 39, which covers the topic of liquidity risk, provides further information about the scope of the syndicated agreement.

All financial liabilities carry variable interest. The 3-month EURIBOR and EONIA average monthly rates serve as reference rates.

(29) PROVISIONS

The provisions are composed as follows:

Non-current provisions k€	**Balance as of 01/01/2015**	**Reclassification**	**Consumption**	**Release**	**Unwinding of discount**	**Addition**	**Balance as of 12/31/2015**
Warranty provisions	523	– 268	0	– 32	3	276	502
Restoration obligations	91	0	0	0	0	0	91
Miscellaneous	44	0	0	– 2	0	25	67
Total	**658**	**– 268**	**0**	**– 34**	**3**	**301**	**660**

Current provisions k€							
Warranty provisions	608	268	– 272	– 283	0	0	321
Litigation and arbitration costs	179	0	0	– 179	0	84	84
Provisions for impending losses	338	0	– 55	– 221	0	0	62
Miscellaneous	314	0	– 280	– 31	0	62	65
Total	**1.439**	**268**	**– 607**	**– 714**	**0**	**146**	**532**

The warranty provision has been formed for statutory and contractual warranty obligations, and ex gratia payments to customers. Almost all the non-current warranty provisions relating to the project business have a residual term of up to two 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 ten percent. The period considered for this purpose is up to three years.

Other non-current provisions include, in particular, the provision for site restoration obligations, and the provision for the obligation to archive business documents. Miscellaneous current provisions generally only comprise cases where each individual valuation is of secondary importance.

(30) TRADE PAYABLES

Trade payables are measured at their 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 reported in the balance sheet 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.

Other financial liabilities are composed as follows:

Other financial liabilities k€	12/31/2015	12/31/2014
Deferred sales	106	418
Credit balances in customer accounts	39	37
Warranty obligations arising from project business*	0	110
Other	917	521
Total	**1,062**	**1,085**

* The warranty obligations relate to Phoenix Solar Inc, San Ramon, USA, and comprise of warranty provisions. For this reason, the related amount was already adjusted during the course of the financial year.

Other non-financial liabilities k€	12/31/2015	12/31/2014
Personnel-related liabilities	677	559
Liabilities from prepayments received	180	376
VAT liabilities	177	779
Liabilities under wage tax and social security	94	243
Other	359	195
Total	**1,487**	**2,151**

The personnel-related liabilities relate to the following matters:

Personnel-related liabilities k€	12/31/2015	12/31/2014
Liabilities from bonus commitments	522	214
Liabilities for overtime and/or vacation claims	100	132
Liabilities from current employment contracts	0	82
Other	56	130
Total	**677**	**559**

E. ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(32) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The equity of the Phoenix Solar Group is divided into subscribed capital, capital reserves and accumulated other comprehensive income.

Detailed information on the fully paid in share capital of Phoenix Solar AG and on transactions recognized in the capital reserves, 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”.

Accumulated other comprehensive income represents equity earned by the Group, as a matter of principle. It is composed of the prior-period profits and losses of the companies included in the consolidated financial statements, to the extent they have not been distributed in the form of dividends, and differences arising from currency translation of the foreign subsidiaries' separate financial statements, in the amount of kEUR 256 (previous year: kEUR 827). As in previous years, other comprehensive income did not incur any income tax (previous year: 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 as a result of cash inflows and outflows during the reporting period. In accordance with IAS 7, cash flows are divided into cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Where a change in the scope of consolidation occurs due to acquisition or sale of companies, the purchase price paid (excluding liabilities assumed), less the cash and cash equivalents acquired or sold, are recognized 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 cash flow groups.

The cash flow from operating activities is calculated by means of the indirect method. This entails calculating cash flow from operating activities as follows: the consolidated pretax earnings for the period are adjusted to exclude non-cash amounts, and are supplemented to include changes in current assets and liabilities. After taking into account payments of interest and tax, this generates a cash inflow from operating activities of kEUR 1,772.

The buildup of trade accounts payable (kEUR 14,418) exerted a significantly positive effect on operating cash flow. Moreover, kEUR 2,636 of changes in other assets were added. Cash flow was particularly burdened by changes to receivables and prepayments rendered in connection with the project business totaling kEUR 10,283.

The cash flows from investing activities and financing activities are both calculated by means of the direct method, reporting exclusively cash transactions.

The cash flow from investing activities was influenced mainly by acquisitions of non-current assets. Notes 12 and 14 provide detailed information on capital expenditures.

In the 2015 financial year, operating activities were financed utilizing syndicated working capital financing lines (see notes 28 and 39).

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all cash and cash equivalents presented in the balance sheet, in other words, cash on hand and cash at banks, to the extent they are available within three months (note 26).

Significant non-cash transactions include write-downs to inventories amounting to kEUR 42 (previous year: write-ups of kEUR 233), and allocations of write-downs or write-offs to the receivables portfolio in the amount of kEUR 63 (previous year: kEUR 1,667).

In the 2015 consolidated financial statements, adjustments were applied to the cash flow statement in compliance with IAS 8 regulations. The corrections applied are explained in section C.1.

F. OTHER DISCLOSURES

(34) SEGMENT REPORTING

OPERATING SEGMENTS

The Group Executive Board is the governing body that is responsible for making decisions about the allocation of resources to the operating segments of the Phoenix Solar Group, and for assessing 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 measuring the relevant operating segments. The MIS is originally based on the IASB's recognition and measurement regulations, also with respect to the data of the operating performance parameters of each operating segment. The relevant managerial indicators for each operating segment include revenues and earnings before interest and taxes, adjusted to reflect the profit or loss of associates (segment profit or loss).

The Group is managed through the two operating segments of 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 merchandise

Operating profit or loss is segmented on the basis of cost accounting reports. Where the revenues of the Power Plants segment comprise project-related work, the corresponding proportionate profits are recognized as of the reporting date.

The other indicators to be segmented with regard to the Power Plants and Components & Systems segments are divided by principal activity through applying a distribution key that is derived from revenues or total operating revenue on a uniform basis, as a matter of principle. Whenever a cost allocation based on the specific cost of goods sold is required, a key is applied on the basis of the materials used and the work performed.

The provisional finding by the FREP (proceedings still underway), as presented in section C.1, were taken into account through amending the previous year's presentation applying IAS 8 regulations.

Financial Year 2015 k€	Power Plants	Components & Systems	Total Group
Segment income statement			
External revenues	113,452	5,955	119,407
Segment revenues	**113,452**	**5,955**	**119,407**
Segment profit or loss	800	– 2,403	– 1,603
Income from associated companies	24		24
EBIT	824	– 2,403	– 1,579
Financial result			4,367
Consolidated profit/loss before taxes			– 5,946
Income taxes			– 317
Consolidated net profit/loss			**– 5,629**
– of which attributable to non-controlling interests			– 406
– of which due to majority shareholders			5,223
Other information			
Capital expenditures	186	10	196
Amortization, depreciation and impairment losses	1,189	177	1,366
Non-cash expenses	929	201	1,130
Non-cash income	1,445	268	1,714
Assets			
Segment assets	44,572	2,339	46,911
Investments in associates	387		387
Unallocated assets			6,146
Consolidated assets	**44,959**	**2,339**	**53,444**

Financial Year 2014 k€	Power Plants	Components & Systems	Total Group
Segment income statement			
External revenues	16,458	17,325	33,783
Segment revenues	**16,458**	**17,325**	**33,783**
Segment profit or loss	– 2,527	– 2,128	– 4,655
Income from associated companies	39	0	39
EBIT	– 2,488	– 2,128	– 4,616
Financial result			– 5,125
Consolidated profit/loss before taxes			– 9,741
Income taxes			– 426
Consolidated net profit/loss			**– 10,167**
– of which attributable to non-controlling interests			3
– of which due to majority shareholders			– 10,170
Other information			
Capital expenditures	710	176	886
Amortization, depreciation and impairment losses	1,285	284	1,569
Non-cash expenses	1,527	1,104	2,631
Non-cash income	3,219	925	4,144
Assets			
Segment assets	18,110	19,065	37,175
Investments in associates	397	0	397
Unallocated assets			7,668
Consolidated assets	**18,507**	**19,065**	**45,240**

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, whose revenues were recognized on an accrual basis applying the percentage-of-completion method according to IAS 11. These revenues total kEUR 102,682 as of the reporting date (previous year: kEUR 8,641). Due to the business model, and the goods and services offered on that basis, intersegment revenues are excluded, as a matter of principle. Given the current customer portfolio, concentration of revenues on any one or a few customers is somewhat limited; the same applies to the purchasing side.

Segment assets are defined as the sum of non-current and current assets, less interests in associated companies, as well as income tax assets and interest-bearing receivables. Segment liabilities are not included in the MIS at present, and are not utilized by the Executive Board to manage the operating segments.

Non-cash income includes income from the release of provisions, the derecognition of liabilities and the reversal of impairment losses, and from changes in the fair value of options. Non-cash expenses include the recognition of additions to impairment losses and the derecognition 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 matter of principle.

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

Non-current assets are assigned on the basis of the companies' registered head offices.

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

k€	**2015**	**2014**
USA	97,980	7,033
Asia/Pacific	8,607	10,053
Middle East	8,403	828
Europe	4,417	15,869
Total	**119,407**	**33,783**

Non-current assets were divided among the regions as follows:

k€	**12/31/2015**	**12/31/2014**
Germany	1,195	1,474
EU excluding Germany	12,238	13,111
USA	932	0
Asia	714	794
Unallocated	2,176	2,504
Total	**17,255**	**17,883**

(35) DISCLOSURES OF TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 related parties for the Phoenix Solar Group comprise individuals and companies that control the Phoenix Solar Group or that exercise a significance influence on it, or that are controlled or significantly influenced by the Phoenix Solar Group.

Besides business relationships with subsidiaries included in the consolidated financial statements by way of full consolidation for which no disclosures are required, the following business relationships existed with the following related parties.

Phoenix Solar AG granted its participating interest SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG a final maturity loan of kEUR 1,047 at 6.5 percent interest until September 30, 2012, and with a term until the end of 2013. This loan was paid down to an amount of kEUR 114 by December 31, 2015. Since October 1, 2012, the interest rate has been reduced to 0.0 percent on the basis of an agreement concluded in 2013.

Directors' shareholdings:

Executive Board	**Number of Shares 12/31/2015**	**Number of Shares 12/31/2014**
Tim P. Ryan (from January 1, 2015)	3,135	n.a.
Dr. Murray Cameron	69,750	69,750
Manfred Hochleitner (from January 1, 2015)	0	n.a.
Olaf Laber (stepped down from office January 31, 2015)	n.a.[1]	n.a.[1]
Total shares held by Executive Board members	**72,885**	**69,750**

Supervisory Board	**Number of Shares 12/31/2015**	**Number of Shares 12/31/2014**
J. Michael Fischl (until June 23, 2015)	n.a.[1]	n.a.[1]
Oliver Gosemann	20,000	9,100
Prof. Thomas Zinser	0	0
Hans-Gerd Füchtenkort (from June 23, 2015)	0	0
Total holdings of Supervisory Board members	**20,000**	**9,100**

[1] Not applicable, as a reporting duty no longer exists due to the member leaving office

In connection with the Stock Option Plan 2006, the following stock options were granted to the Executive Board: in the 2007 financial year, 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 the 2008 and 2009 financial years, 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 the 2010 financial year 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, compensation paid to the Executive and Supervisory boards constitutes transactions with related persons. Please see notes (42) and (43) for more detailed information.

(36) CONTINGENT LIABILITIES

Warranty and other commitments result from standard contractual warranty obligations that can arise in connection with contracts in the Power Plants segment, and from orders in the Components & Systems segment.

(37) CONTINGENT ASSETS AND LIABILITIES

A contingent liability of around EUR 1.0 million exists in connection with a tax risk relating to the VAT audit in Bulgaria (Kazanlak project). The outcome of the pending case is currently uncertain.

A snowstorm on the East coast of the USA caused damage to a project to construct a PV plant. The project is not yet complete, and the client notified the damage. Insurance cover exists for damage caused by force majeure during the construction phase. The extent to which Phoenix Solar Inc., San Ramon, USA, is required to pay for the losses is uncertain. To this extent, a contingent liability of USD 2.2 million (equivalent to EUR 2.0 million) exists as of the end of the 2015 financial year. The management assumes that the potential costs are covered by insurance.

(38) OTHER FINANCIAL LIABILITIES

The Group had total financial commitments of kEUR 3,313 (previous year: kEUR 2,959) under various rental and lease agreements. Of this total amount, an amount of kEUR 741 (previous year: kEUR 953) is due within one year, kEUR 1,870 (previous year: kEUR 1,672) has a residual term between one and five years, and kEUR 702 (previous year: kEUR 334) has a residual term of over five years.

As in the previous year, no order obligations existed for non-current assets as of the balance sheet date (previous year: kEUR 0). In addition, bill guarantee lines of EUR 27.0 million had been extended as of the balance sheet date (previous year: EUR 21.1 million).

(39) RISK MANAGEMENT SYSTEM

The Phoenix Solar Group is exposed to both cash flow risks and exchange rate risks with respect to its assets, liabilities and planned transactions.

The objective of financial risk management is to limit this risk by means of ongoing operational and financial activities. Depending on the assessment of the risk in question, selected derivative hedging instruments are deployed to this end. Only those risks that have effects on the Group's cash flow are hedged as a matter of principle, however. Derivative financial instruments are employed exclusively for hedging purposes; in other words, they are not utilized for trading or other speculative purposes.

The basic principles of financial policy are set annually by the Executive Board, and monitored by the Supervisory Board. The treasury department is responsible for implementing financial policy and corresponding risk management. Certain transactions require advance Executive Board approval. The Executive Board is also informed regularly about the scope and volume of the current risk profile.

CURRENCY AND INTEREST RATE RISK

The Phoenix Solar Group is exposed to currency risks due to the fact that its business is geared to international markets, and their growing importance. As a consequence, the treasury department considers the effective management of exchange rate risk to be one of its principal tasks, which it fulfills 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. By contrast, foreign currency risks that do not influence the Group's cash flows (in other words, risks resulting from the translation of assets and liabilities of foreign corporate units to the Group's reporting currency) are unhedged, as a general rule.

In the area of operating activities, foreign currency risks arise in connection with the purchasing of modules from planned payments in currencies other than the functional currency.

Derivatives are employed as hedging instruments to limit or eliminate such risks. The Group generally deploys forward currency transactions, swaps and currency options to hedge payments in advance that will be made or received in the following financial year. As of the December 31, 2015 reporting date, the Group reports forward currency transactions with a volume of kEUR 4,397 (previous year: kEUR 2,645).

Phoenix Solar AG is consequently exposed to market value risks from certain foreign exchange derivatives. These comprise foreign exchange derivatives that serve to hedge underlying transactions and planning positions. Exchange rate changes in the currencies underlying such financial instruments are recognized in other operating income or expenses (measurement result from the adjustment of financial assets to fair value). If the euro had risen or fallen by ten percent against all currencies as of December 31, 2015, other operating income and the fair value of hedging transactions would have been kEUR 146 lower or kEUR 178 higher respectively (December 31, 2014: kEUR 8 higher or kEUR 6 lower respectively). The hypothetical earnings effect derives from the currency sensitivities of the euro to the US dollar, and of the euro to the Omani rial.

Monetary financial instruments (cash and cash equivalents, receivables, non-interest-bearing liabilities) are denominated directly in the functional currency in most cases. Exchange rate changes have no effect on the Group's results or equity as a consequence. Interest income and interest expenses from financial instruments are also recognized directly in the functional currency. Accordingly, any related changes also have no effect on the observed values.

Moreover, the company has set up an interest rate management program, which became more important during the past financial year as a result of the variable syndicated loan financing facility. Although the business model, and resultant equity and liability items, are currently exposed to only minor interest rate risk, the Group has nevertheless identified the need to set up 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 in the interest differences underlying such financial instruments affect the Group's net 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 December 31, 2015, the financial result and the fair value of hedging instruments would have been kEUR 94 higher or kEUR 1 lower respectively (December 31, 2014: kEUR 250 higher or kEUR 21 lower respectively). In the case of non-derivative financial instruments with a nominal value of EUR 39 million, the net financial result would have been kEUR 391 lower, or kEUR 391 higher (December 31, 2014: kEUR 386 lower, or kEUR 386 higher).

DEFAULT RISK

The Phoenix Solar Group attaches great importance to the risk of default on receivables. The methods employed to manage this risk relate to counterparty credit standing, insofar as the Group attempts to assess their creditworthiness, and to limit or prevent losses on receivables on this basis.

The Group is exposed to default risk primarily in connection with its trade receivables. The amounts reported in the balance sheet are stated net of write-downs for prospectively uncollectible receivables. Such write-downs have been estimated by Group management on the basis of past empirical data and the current economic environment.

We generally agree milestone payments for long-term construction contract projects, thereby keeping related potential receivables default risk relatively low.

Default risk is limited in the case of liquid assets, insofar as such instruments are held with banks with high credit ratings by international rating agencies.

No significant concentration of default risks exists within the Group as the risks are distributed among a large number of counterparties and customers.

Maximum default risk is reflected in the carrying amounts of the financial assets recognized on the balance sheet (including derivative financial instruments with positive market values). As of the reporting date, significant agreements existed that would reduce the maximum default risk (including set-off agreements, for example).

Derivative transactions are concluded on the basis of a standardized master agreement for financial forward transactions. This master agreement does not satisfy IAS 32 offsetting criteria, as offsetting can be implemented only in the case of insolvency, or given simultaneously due payments in identical currency.

LIQUIDITY RISK

To avoid liquidity risk within the Phoenix Solar Group – in other words, an inability on the part of the Group to fulfill 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. The Group treasury function compares the expected future cash flows with the rolling weekly forecast of the Group's liquidity position. This allows financial risks to be identified at an early stage, and measures to be taken in relation to financing and investment requirements (flexible liquidity risk management).

In March 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30, 2018. The new financing facility will comprise a reduced volume totaling around EUR 101 million, and consists of a syndicated loan of almost EUR 85.4 million, as well as other bilateral cash and bill guarantee lines.

T €				
As of 12/31/2015	**Carrying amount/ value**	**Residual term up to 1 year**	**Residual term 1 to 5 years**	**Residual term more than 5 years**
Non-current financial liabilities	39,059	6,200	32,859	0
Liabilities arising from long-term construction contracts	8,631	8,631	0	0
Trade payables	9,496	9,496	0	0
Miscellaneous other financial liabilities	1,045	1,045	0	0
Derivative liabilities	17	17	0	0
As of 12/31/2014				
Non-current financial liabilities	38,590	7,000	31,590	0
Liabilities arising from long-term construction contracts	1	1	0	0
Trade payables	346	346	0	0
Miscellaneous other financial liabilities	2,469	2,469	0	0
Derivative liabilities	2,151	2,151	0	0

(40) SHARE-BASED PAYMENT TRANSACTIONS

The Annual General Meeting of July 7, 2006, passed a resolution 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. Conditional Capital of kEUR 552 was created for this purpose.

As part of this authorization, the Executive Board of Phoenix Solar AG set up a Stock Option Plan on September 10, 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, 286,850 (of which 2015: 7,000) of those stock options had expired due to the individuals concerned having left the company, and 18,000 had been exercised in previous years. As a consequence, 35,500 stock options exist 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 has not been terminated by either party at the time of exercise of the stock options.

The fair value of stock options has been calculated by means of a simulation (Monte Carlo simulation), based on the following parameters:

	SOP 2006 (2011)	**SOP 2006 (2010)**	**SOP 2006 (2009)**	**SOP 2006 (2008)**
Issue date	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Measurement date	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Company's share price on measurement date	€ 19.52	€ 28.70	€ 36.40	€ 43.46
Vesting period	2 years	2 years	2 years	2 years
Term (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
Number 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 experience with the initial exercise, a three-part strategy was assumed for Tranches IV and V, consequently: 1. Earliest possible exercise, 2. Earliest possible exercise after two and a half years at the earliest, 3. The weighting applied for determining the percentage of stock options to which each strategy is to 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. An employee turnover rate of five percent was also taken into account.
- **Lock-up period:** During the exercise period, stock options may not be exercised during a period of 14 calendar days before the date of publication of quarterly reports, and during the period from the close of the financial year to the end of the date of publication of the financial results of the preceding financial year.
- **Exercise hurdles:** The beneficiaries can only exercise the option rights if the closing price of the share of Phoenix Solar AG in Xetra trading on the Frankfurt Stock Exchange (or a comparable successor system) exceeds by 40 percent the exercise price on exercise of the subscription rights during the first year of the exercise period on ten subsequent trading days. This percentage rate increases in each case by 20 percentage points in the subsequent years. No options can be exercised as of December 31, 2014 due to the aforementioned exercise hurdles.

Volatility was calculated as historical volatility derived from the share price performance between November 19, 2004 and July 13, 2007 (Tranche I), between July 1, 2005 and September 12, 2008 (Tranche II), between July 1, 2006 and October 5, 2010 (Tranche IIII), between July 1, 2007 and October 4, 2011 (Tranche IV), and between July 1, 2008 and May 9, 2011 (Tranche V). Expected volatility is based on 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 on the issue date 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 reported the following changes during the financial year under review:

	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 01/01/2014	3,000	32,000	17,000	12,000	4,500	68,500
Stock options expired during the 2014 term	0	– 12,500	– 6,000	– 3,000	– 4,500	– 26,000
Position 12/31/2014 – 01/01/2015	**3,000**	**19,500**	**11,000**	**9,000**	**0**	**42,500**
Stock options expired during the 2015 term	0	0	– 2,000	– 5,000	0	– 7,000
Position 12/31/2015	**3,000**	**19,500**	**9,000**	**4,000**	**0**	**35,500**

As in the past years, no options were exercised in 2015.

The company incurred no expenses from share-based compensation for the 2015 financial year (previous year: kEUR 0).

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

(41) IMPORTANT EVENTS AFTER THE REPORTING PERIOD

In March 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30, 2018. The new financing facility comprises a slightly changed volume totaling around EUR 101 million, and consists of a syndicated loan of EUR 85.4 million, as well as other bilateral cash and bill guarantee lines.

G. SUPPLEMENTARY MANDATORY DISCLOSURES PURSUANT TO THE GERMAN COMMERCIAL CODE (HGB)

(42) EXECUTIVE BOARD OF THE PARENT COMPANY

- Tim P. Ryan, Master of International Business (MIB), Lucerne / Switzerland, appointed as of January 1, 2015, until December 31, 2017, Chief Executive Officer from January 1, 2015; responsible for strategy and business development, America, Asia and Middle East
- Manfred Hochleitner, mathematics graduate, Munich, appointed as of January 1, 2015, until December 31, 2017; responsible for finance and administration (CFO)
- Dr. Murray Cameron, physics graduate, Garching, appointed until December 31, 2016; responsible for business support international
- Olaf Laber, IT studies graduate, Dreieich, appointed until December 31, 2016; responsible for new business models, information technologies, Europe and Middle East (since January 1, 2014; stepped down from office as of January 31, 2015)

Membership on supervisory boards within the Group and external to the Group:

- With effect as of February 1, 2015, Mr. Tim Ryan assumed the role of Chief Executive Officer, as well as the role of President of Phoenix Solar Inc., USA.
- Mr. Manfred Hochleitner is a Non Executive Board member of Phoenix Solar Pte Ltd., Singapore, and also a member of the Board of Directors of Phoenix Solar Inc., USA, with effect as of February 1, 2015. He is also member of the Administrative Board of Phoenix Solar S.r.l. Rome, Italy, and Managing Director of the French subsidiary (until March 31, 2015), as well as of three project companies.
- Dr. Murray Cameron is Chairman of the Non Executive Board of Phoenix Solar Pte Ltd., Singapore, and was Chief Executive Officer and President of Phoenix Solar Inc., USA, until January 31, 2015.

The total compensation granted to the Executive Board in the financial year 2015 amounted to kEUR 803 (PY: kEUR 1,074). Please refer to section 12 of the management report for detailed information about Executive Board compensation.

(43) SUPERVISORY BOARD OF THE PARENT COMPANY

- Michael Fischl, business studies graduate, Abensberg (Chairman until June 23, 2015), Head of Internal Audit of Sparkasse Ingolstadt
- Oliver Gosemann, Managing Director of GOSFAM Investments GmbH, Forst (since June 16, 2010, Chairman since June 23, 2015) Mr. Gosemann is also Deputy Supervisory Board Chairman at CPU Softwarehouse AG, Augsburg, and Supervisory Board member at Turbina Energy AG, Munich.
- Prof. Thomas Zinser, Hohenschäftlarn, (Deputy Supervisory Board Chairman since June 21, 2012), tax advisor at tax, law, and management consultancy firm Ebner Stolz Mönning Bachem, and professor at Landshut University in the Faculty of Taxation, Accounting and Business Administration
- Hans-Gerd Füchtenkort, Rottach-Egern (since June 23, 2015). Mr. Füchtenkort currently holds no other supervisory board mandates.

The total compensation of the Supervisory Board members in the 2015 financial year amounted to kEUR 120 (previous year: kEUR 129), and is comprised entirely of non-performance-related components.

This amount was composed as follows:

k€	Component unrelated to performance		Total	
	2015	2014	2015	2014
J. Michael Fischl (until June 23, 2015)	23	54	23	54
Oliver Gosemann	44	36	44	36
Prof. Thomas Zinser	38	39	38	39
Hans-Gerd Füchtenkort (from June 23, 2015)	15	0	15	0
Total	**120**	**129**	**120**	**129**

(44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The fee paid to the auditing company and expensed for 2015 is composed as follows:

k€	2015	2014
a) Audit of financial statements	270	203
b) Other certification services	0	0
c) Tax advisory services	3	0
d) Other services	0	6
Total	**273**	**209**

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

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive and Supervisory boards have issued a declaration of conformity with the German Corporate Governance Code, making it permanently available to shareholders on the company's website (http://www.phoenixsolar-group.com) under the menu options of "Investor Relations" and then "Corporate Governance", "Declaration of Conformity". The disclosures relating to target setting concerning reaching the statutory ratio of women required pursuant to Section 289a (4) of the German Commercial Code (HGB) were also published.

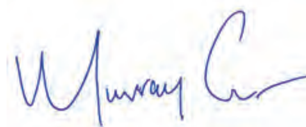
(46) RESPONSIBILITY STATEMENT

We assure that, to the best of our knowledge, and pursuant to the applicable accounting regulations, the consolidated financial statements convey a true and fair view of the Group's financial position and performance, the Group management report presents the progression of business, including the business results and the Group's position, so as to give a true and fair view of actual circumstances, as well as of significant opportunities and risks pertaining to the Group's prospective development.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, March 24, 2016

Phoenix Solar Aktiengesellschaft



Tim P. Ryan	**Manfred Hochleitner**	**Dr. Murray Cameron**
Master of International Business (MIB)	Dipl.-Mathematiker	Dipl.-Physiker
Lucerne/Switzerland	Munich	Garching
(Chief Executive Officer)	(Executive Board member)	(Executive Board member)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the Group Management Report for the business year from January 1, 2015 to December 31, 2015. 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.

Munich, March 24, 2016

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer	ppa. Frank Thomas Buchwald
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.

• Levelized Cost of Energy
According to the formula

$$LCoE = \frac{CAPEX + \sum_{t=1}^{n} [OPEX(t)/(1+WACC_{Nom})^t]}{\sum_{t=1}^{n} [Utilisation \times (1-Degradation)^t/(1+WACC_{Real})^t]}$$

the calculation of total production costs mainly includes the investment, operating and capital costs, as well as amortization.

t = time (in years)
n = economic lifetime of the system (in years)
CAPEX = total investment expenditure of the system, made at t=0 (in €/kWp)
OPEX(t) = operation and maintenance expenditure in year t (in €/kWp)
WACCNom = nominal weighted average cost of capital (per annum)
WACCReal = real weighted average cost of capital (per annum)
Utilisation0 = initial annual utilisation in year 0 without degradation (in kWh/kWp)
Degradation = annual degradation of the nominal power of the system (per annum)
WACCReal = (1 + WACCNom) / (1 + Inflation) – 1 (2) where Inflation is the annual inflation rate

• 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.

• Total production costs
see Levelized Cost of Energy

• 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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CREATION

„feel free!“ Weber & Kudla GbR – Friedberg/Hessen

PHOTOGRAPHY

Title: © Silicon Ranch Corporation 2015

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

March 30, 2016	Annual Report as per December 31, 2015
May 4, 2016	Report/Interim Figures as per March 31, 2016
June 1, 2016	Ordinary Annual General Meeting of Shareholders 2016
August 5, 2016	Report/Interim Figures as per June 30, 2016
November 11, 2016	Report/Interim Figures as per September 30, 2016

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

Group structure as at 12/31/2015

Phoenix Solar AG
Sulzemoos, Germany

SUBSIDIARIES

Share	Company
100 %	**Phoenix Solar S.L.** Madrid, Spain
100 %	**Phoenix Solar M.E.P.E.** Athens, Greece
100 %	**Phoenix Solar SAS** Lyon, France
100 %	**Phoenix Solar America GmbH** Sulzemoos, Germany
100 %	**Phoenix Solar Inc.** San Ramon, USA
75 %	**Phoenix Solar Pte Ltd.** Singapore, Singapore
75 %	**Phoenix Solar Sdn Bhd** Kuala Lumpur, Malaysia
75 %	**Phoenix Solar Philippines Inc.** Manila, Philippines
70 %	**Phoenix Solar L.L.C.** Muscat, Oman
100 %	**Phoenix Solar Overseas GmbH** Sulzemoos, Germany
100 %	**Phoenix Solar Fonds Verwaltung GmbH** Sulzemoos, Germany

OTHER HOLDINGS

Share	Company
100 %	**11 special purpose entities** (see Notes A.)
31.2 %	**Phoenix SonnenFonds GmbH & Co. KG B1** Sulzemoos, Germany

Phoenix Solar AG
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