ANNUAL REPORT 2012

PHOENIX SOLAR AT A GLANCE

Company profile

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

Financial Figures

		01/01/2012 – 30/12/2012	**01/01/2011 – 30/12/2011**	**Change**
Revenues and results				
Revenues	k€	155,430	393,484	– 60.5 %
– Domestic	k€	46,428	168,490	– 72.4 %
– International	k€	109,002	224,994	– 51.6 %
Overall performance	k€	158,729	404,349	– 60.7 %
EBIT	k€	– 31,790	– 84,680	62.5 %
– in % of revenues (EBIT margin)	%	– 20.5	– 21.5	4.9 %
Consolidated net income for the period	k€	– 37,591	– 86,375	– 56.5 %
Orders on hand	k€	74,889	119,444	– 30.1 %
Balance sheet[1]				
Total assets	k€	92,652	143,903	– 35.6 %
Equity	k€	17,304	54,806	– 68.4 %
Equity ratio	%	18.7	38.1	– 51.0 %
Return on equity	%	– 68.6	– 60.6	– 13.2 %
Employees[1]				
Employees[2]	Anzahl	262	401	– 34.6 %
Revenues per capita[3]	k€	228	409	– 39.6 %
Phoenix Solar share[1]				
No-par bearer shares	Anzahl	7,372,700	7,372,700	0.0 %
Closing price	€	1,05	2.15	– 51.2 %
Market capitalisation	k€	7,734	15,851	– 51.2 %
Earnings per share				
– Basic	€	– 5.10	– 11.80	– 56.8 %
– Diluted	€	– 5.10	– 11.80	– 56.8 %

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

CONTENTS

TO OUR SHAREHOLDERS

006 – 025

Letter to our shareholders ... 007
Executive Board of Phoenix Solar AG ... 009
Report of the Supervisory Board ... 010
Corporate Governance Report ... 015
Phoenix Solar share ... 022

GROUP MANAGEMENT REPORT

026 – 065

1 Business activity and framework conditions ... 027
2 Results of operations, cash flows and financial position ... 043
3 Employees ... 052
4 Sustainability ... 053
5 General assessment of the company's economic situation ... 055
6 Events after the reporting date ... 056
7 Report on opportunities and risks ... 057
8 Forecast report ... 062

CONSOLIDATED FINANCIAL STATEMENTS

066 – 071

Consolidated income statement ... 067
Consolidated statement of comprehensive income ... 067
Consolidated balance sheet ... 068
Consolidated statement of changes in equity ... 070
Consolidated cash flow statement ... 071

NOTES

072 – 137

A. Basic principles and methods ... 073
B. Recognition and measurement methods ... 084
C. Notes to the consolidated income statement ... 094
D. Notes to the consolidated statement of financial position ... 102
E. Other notes to the the consolidated financial statement ... 119
F. Other disclosures ... 121
G. Supplementary disclosure obligations pursuant to the German Commercial Code HGB ... 131
H. Date and signing of the consolidated financial statements ... 134

Affirmation by the legally authorised representatives ... 136
Auditor’s report ... 137

ADDITIONAL INFORMATION

138 – 144

Photovoltaic glossary ... 139
Editorials and Contact ... 142
Financial calendar ... 143
Group structure ... 144

TO OUR SHAREHOLDERS

Letter to our shareholders ... 007
Executive Board of Phoenix Solar AG ... 009
Report of the Supervisory Board ... 010
Corporate Governance Report ... 015
Phoenix Solar share ... 022

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

in February 2013, we took a series of decisions which will fundamentally change the business of our company. They were necessary for the company's survival and its return to the path of profitable growth. Following two partly extremely difficult years, we have decided to separate from loss-making areas where no swift recovery can be expected in the respective market environment with its current shifts in, among other factors, the regulatory framework. This applies to Germany in particular, where we started our business and and which has been our home market for many years. Here we will be offering operating and maintenance services for solar power plants and developing our new business models with our key know-how incumbents. The trading and project business in its previous form, however, will be discontinued in Germany.

This decision was an extremely difficult one for us, especially as we had to part ways with many well-qualified employees. There was, however, no other alternative given the conditions in Germany's political and market environment and our concern to ensure the survival of our company.

Our work will now focus mainly on the USA and Asia, and therefore on regions where photovoltaic continues its dynamic pace of growth. Our subsidiaries in these countries are established in their markets and have the ability and expertise to manage their own operations sustainably and independently, and take their business further.

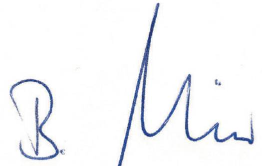
In the USA in particular we are already seeing that, even without government subsidies, solar electricity is extremely competitive. Investors and operators are deciding in favour of harnessing the sun's energy for ecological as well as a financial reasons, simply because this is a very cost-effective form of generating power.

If we are able to decouple from markets that are dominated more by politics, and align our business model swiftly and flexibly to new market drivers, we will be able to open up new prospects for ourselves again. You may remember the planning which we also announced back in February: If we are successful in implementing the goals we have set ourselves, we will be generating more revenues before the end of 2013 without the German trading and project business than with it in 2012. What is more important: following two years of high losses, we will be close to the profit zone again, at least in terms of our operating results. Being in a position to achieve this is down to our employees who have created the basis – the staff who will now be implementing the new approach and the many who sadly had to leave the Group over the course of restructuring. Our thanks and recognition go to them in any event. Thanks and esteem are also especially due to Dr. Andreas Hänel, the founding member of Phoenix Solar AG's Executive Board, who laid down his Executive Board mandate prematurely with effect from 28 February 2013. His long-standing and successful activity as Chief Executive Officer enabled Phoenix Solar AG to make its way up into the TecDAX. He also led the company in the difficult restructuring phase with enormous commitment. We are delighted that he will remain available to our company in a consulting capacity in the future.

Proof that our strategic decision for the new course we will be steering is right has been been given in the affirmation by the financing banks. They were prepared to adjust the existing lending agreement to the new plan and to extend it at an early stage for another year. We will do everything in our power to earn their trust and your trust as well as our valued shareholders in the coming quarters. With the return to the sunny side, we will have the possibility of winning back the capital market again for our share in the future.

The significance of the energy to which we are committed is ultimately an argument which supports this. Photovoltaics is and will remain a form of power generation with a huge future. In the medium and long term, the climate protection targets and sustainable economic development can only be realised with solar energy as an adequate part of the mix. Our motto therefore incorporates our goal as well: making this energy together and benefiting together from this energy.

Kind regards,



Dr. Bernd Köhler
(Chief Executive Officer)

EXECUTIVE BORD OF PHOENIX SOLAR AG

CEO

DR. BERND KÖHLER
Chief Executive Officer (CEO)
Born in 1960

Member of the Executive Board since 1 December 2011, Chief Financial Officer since 1 January 2012 and Chief Executive Officer since March 2013

COO

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

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

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board herewith submits its report to the regular General Meeting of Shareholders, in particular on its supervision of management during the year under review, on its audit of the company's financial statements and GROUP MANAGEMENT REPORT drawn up as at 31 December 2012 pursuant to the provisions of the German Commercial Code (HGB) and the consolidated financial statements, and reports on the Group, as well as on its statement on the report of the independent auditor.

BACKGROUND INFORMATION

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

The size of the Supervisory Board was reduced from six to three members through resolution passed by the regular Annual General Meeting of Shareholders on 21 June 2012. The Supervisory Board members Prof. Dr. Klaus Höfle and Dr. Patrick Schweisthal laid down their Supervisory Board mandates contingent on the entry of the resolution by the Annual General Meeting of Shareholders on reducing the size of the Supervisory Board, namely with effect from 28 June 2012. The Supervisory Board mandate of Dr. Torsten Hass ended upon conclusion of the Annual General Meeting of Shareholders on 21 June 2012. Supervisory Board member Oliver Gosemann was elected by way of resolution by the aforementioned Annual General Meeting of Shareholders.

Since 28 June 2012, the Supervisory Board has comprised three members, specifically the following persons: Mr. J. Michael Fischl (Chairman), Prof. Dr. Thomas Zinser (Vice Chairman) and Mr. Oliver Gosemann. The requirements placed on independent financial experts within the meaning of Section 100 para. 5 of the German Stock Corporation Act (financial expert) are and will be fulfilled by Prof. Dr. Thomas Zinser who is a full-time tax adviser by profession.

Until the date on which the reduction in the size of the Supervisory Board became effective, the Supervisory Board formed three committees from its members: the Audit Committee, the Personnel Committee and the Nomination Committee. These committees were tasked with the preparation of certain decisions and topics to be addressed by the Supervisory Board. Within the scope of its decision-making powers entrusted to them under the law, the committees passed their own resolutions. The chairmen reported in the next respective meeting of the Supervisory Board on the work performed by their committees.

The Audit Committee determined the key audit areas in two meetings, both of which were attended by the independent auditor, and in one telephone conference, and concerned itself with examining the annual financial statements and GROUP MANAGEMENT REPORTs of the company and the Group, as well as reviewing the half-yearly financial report. The Chief Financial Officer participated in all meetings. Moreover, the committee addressed issues of accounting, risk management and liquidity management and the status of negotiations with the syndicate banks. In addition, the status of restructuring endeavours was discussed. The Audit Committee consisted of three members: Prof. Dr. Thomas Zinser (Chairman), Oliver Gosemann and Dr. Patrick Schweisthal.

The Personnel Committee was made up of the following members: J. Michael Fischl (Chairman), Dr. Torsten Hass and Prof. Dr. Klaus Höfle. It met twice during the reporting period and focused on the goals agreed on with the members of the Executive Board and monitoring the achieving of these goals, particularly in the context of the restructuring process.

The Nomination Committee comprised the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. In the period under review, the committee deliberated on the size and future composition of the Supervisory Board and on the issue of diversity. Furthermore, proposals to be put to the Annual General Meeting of Shareholders for a resolution on reducing the number of members of the Supervisory Board were prepared.

In accordance with the resolution passed by the Annual General Meeting of Shareholders on 21 June 2012, the Chairman of the Supervisory Board mandated Munich-based PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft on 3 August 2012 in observance of Section 111 para. 2 sentence 3 of the German Stock Corporation Act (AktG) with the audit of the separate annual financial statements, the GROUP MANAGEMENT REPORT and the consolidated financial statements and Group management report prepared under IFRS / IAS standards drawn up in accordance with Section 315a of the German Commercial Code (HGB). The external auditor submitted an Auditor's Independence Declaration to the Audit Committee on 12 May 2012, in accordance with Code Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

On 27 March 2013, the Supervisory Board consulted with the Executive Board and agreed on the Corporate Governance Report in accordance with the recommendations of the German Corporate Governance Code in the version dated 26 May 2010 (published in the German Electronic Federal Gazette on 2 July 2010) and in the version dated 15 May 2012 (published in the German Electronic Federal Gazette on 15 June 2012) pursuant to Section 161 of the German Stock Corporation Act. The Declaration of Conformity was published in accordance with statutory provisions. The full Corporate Governance Report with the Declaration of Conformity is part of the Annual Report.

The Supervisory Board reviews the efficiency of its work on an ongoing basis. With this in mind, the Supervisory Board carried out a detailed assessment of its efficiency as part of a structured survey conducted on all Supervisory Board members in its closed-door session from 30 November 2012 until 1 December 2012. The results of this survey were discussed in a Supervisory Board meeting and proposals for improvement were implemented. The key areas are the structuring and organisation of the meetings, optimising reporting by the Executive Board and passing resolutions on agenda items, as well as the presentation of the financial and earnings position of the company. Members of the Supervisory Board took part in external continuous professional development over the course of the year with a view to optimising their expert qualifications.

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

The Supervisory Board held regular meetings, deliberated intensively on the items on the agenda, and actively analysed the development of the company and the situation in the sector. The Supervisory Board regularly advised the Executive Board in the management of the company and supervised the latter's activities. The supervision of the company's management is coducted first and foremost through the receipt of regular written and oral reports by the Executive Board and the discussion of these reports. The Executive Board reported in a timely fashion on the course of business, the strategic development and the current situation of the company and the Group. In addition to the Supervisory Board meetings,

the Chairman of the Supervisory Board maintained constant contact with the Chairman of the Executive Board and the Chief Financial Officer, and kept himself informed of the current status of business, progress made with restructuring, and individual business transactions.

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

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

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

- Consolidation through sustainable restructuring to secure the company as a going concern, in cooperation with the restructuring consultant,
- discussion of and preparation for further steps in the event of unsuccessful consolidation and/or discussions with banks,
- reorganisation and securing of the financing basis of the Group and the subsidiaries,
- reduction in personnel while taking the aspect of securing the company's competitiveness into consideration,
- concept for a viable market development and sales strategy,
- assessment of the consequences of the political discussion on curtailing feed-in tariffs in key regions, such as Germany, southern and southeast Europe as well as in the USA for the company's business policy,
- analysis of alternatives and/or supplementary business segments to reduce the risk of strong dependency on political decisions,
- receipt and discussion of the Executive Board reports pursuant to Section 90 of the German Stock Corporation Act on the liquidity and financial position, the business policy envisaged, and other fundamental issues pertaining to corporate planning (in particular finance, investment and personnel planning),
- monitoring the development of the internal control system (risk monitoring and early warning system pursuant to Section 91 para. 2 of the German Stock Corporation Act) and the information obtained on this basis,
- acceptance of reports prepared in the context of the compliance management system,
- monitoring the stock market value of the company,
- discussion of the stage of development of the individual business segments and the subsidiaries,
- review and discussion of material contractual problems and projects,
- addressing the content of the German Corporate Governance Code,
- contractual arrangements and changes at Executive Board level,
- size and structure of the reduced Supervisory Board.

The Supervisory Board agreed to the Executive Board's proposals for decision following extensive analysis and discussion. In all decisions relating to the restructuring, the opinions of the competent consultants were obtained beforehand. In the case of measures subject to approval by the Supervisory Board, the main topics were as follows:

- personnel reduction,
- development of a new sales concept,
- strategic realignment of Phoenix Solar AG.

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

CHANGES AT EXECUTIVE BOARD LEVEL

In the reporting period, there were the following changes at Executive Board level: Board member Mr. Ulrich Reidenbach, Chief Sales Officer, withdrew from the Executive Board on 31 January 2012. His areas of responsibility were largely assumed by Dr. Andreas Hänel, Chief Executive Officer, who withdrew from the company's Executive Board on 28 February 2013 in the course of the ongoing restructuring of the company and its concentration on international business and the discontinuation of the main business activities in Germany. The Supervisory Board appointed Dr. Bernd Köhler as the new Chief Executive Officer, who will also continue to discharge the duties of Chief Financial Officer, with effect from 1 March 2013.

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

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

- the annual financial statements for the financial year 2012,
- the report of the Executive Board on the situation of the company in 2012,
- the consolidated financial statements 2012 prepared in accordance with IFRS / IAS standards,
- the report of the Executive Board on the situation of the Group in 2012.

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

The Supervisory Board deliberated on and examined the annual financial statements and GROUP MANAGEMENT REPORTs in its meeting on 27 March 2013 to adopt the financial statements, also attended by the Executive Board, along with the accounts prepared by the Executive Board, and held intensive and detailed discussions with the external auditor who also participated in the meeting, reported on the key findings of the audit, the key areas and scope of the audit and was available for additional information. No major weaknesses in the internal control and risk management system pertaining to the accounting process were ascertained.

The Supervisory Board is satisfied that:

- all the components of financial accounting are systematically correct in as much as they form the basis for the annual financial statements,
- the processes for achieving a complete, accurate, timely and proper capturing, processing and recording of accounting data have been duly set in place,
- the system of documentation is well organised, and each individual business transaction can be traced through to its presentation in the annual financial statements and back again,
- sample checks conducted on the substantiation of the underlying assets and liabilities show that they accord with the carrying amounts disclosed,
- the contract register used for the assessment of pending transactions and the notes to the financial statements does not give the impression of being obscure or incomplete,

- the statutory provisions on recognition, disclosure and measurement are complied with and the annual financial statements give an accurate picture of the net assets, financial position and result of operations of the company.

The Supervisory Board declared its agreement with the findings of the audit conducted by the independent auditor. Following the concluding results of its examination, the Supervisory Board ascertained that there were no objections to be raised.

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

In its meeting on 27 March 2013, following consultation with the external auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act, the Supervisory Board issued the following statement on the independent auditor's report:

„Based on its own examination, the Supervisory Board accedes to the results of the audit carried out on the annual financial statements and the GROUP MANAGEMENT REPORT for 2012 at company level and at Group level by the independent auditor who has issued an unqualified audit opinion. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the annual financial statements as at 31 December 2012 were ratified by the Supervisory Board in its meeting on 27 March 2013, and are thereby adopted. Moreover, the Supervisory Board also ratifies the Consolidated financial statements as at 31 December 2012.*

Sulzemoos, 27 March 2013

J. Michael Fischl
(Chairman of the Supervisory Board)

CORPORATE GOVERNANCE REPORT

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

In the reporting year as well, the Executive Board and the Supervisory Board of Phoenix Solar AG dealt extensively with the recommendations of the „Government Commission on the German Corporate Governance Code“ (GCGC) in the version dated 26 May 2010 (published in the electronic German Federal Gazette of 2 July 2010) and in the version dated 15 May 2012 (published in the Federal Gazette on 15 June 2012).

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

DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As a company with increasingly international operations, Phoenix Solar is giving greater attention to the issue of diversity. We view diversity and equal opportunity as fundamental principles in our working environment. There were employees from 15 different countries working at Phoenix Solar. Almost 11 percent of the workforce did not come from the company's home market of Germany. At the end of 2012, around 12.5 percent of managerial positions at Phoenix Solar AG were held by women. The average age of the workforce is 39 years.

EXPERTISE OF THE SUPERVISORY BOARD

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

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

OBJECTIVES FOR THE COMPOSITION OF THE SUPERVISORY BOARD

In view of the special challenges inherent in the business activities of Phoenix Solar AG, the share of international business and the size of the company and the Group, the Supervisory Board passed a resolution on 26 January 2011 with the following objectives regarding the future composition of the Board:

- In the future as well, at least one member of the Supervisory Board shall in particular embody the criterion of internationality, either through being a foreign national and/or through having significant international experience.
- In the future, at least two independent members, i.e. 33 percent, must be represented on the Board.
- In respect of the proportion of women making up the workforce of Phoenix Solar AG, which came to 33 percent at the end of the financial year 2012, the Supervisory Board considers it appropriate to have at least two women members on the Supervisory Board. Achieving this proportion has been envisaged in the medium term.
- The age limit for members of the Supervisory Board is 67.

The Annual General Meeting of Shareholders held on 21 June 2012, took the decision that the company's Supervisory Board should be reduced to three members as the supervisory task is expected to be less complex due to the economic development in the next few years, with a lower business volume than in the past. Reducing the size of the Supervisory Board will also incur less cost for the company. The Supervisory Board of Phoenix Solar AG now comprises three members in total who are elected by the Annual General Meeting of Shareholders

The resolution of 26 January 2011 passed by the Supervisory Board in respect of percentage goals established for its intended future composition will also be upheld by the smaller Board. In future, at least one independent member and, in the medium term, at least one woman are to be represented on the company's Supervisory Board.

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

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

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

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

SHAREHOLDINGS AND DIRECTORS' DEALINGS

Notifications on the securities transactions of the Executive Board and the Supervisory Board in the shares of Phoenix Solar AG within the meaning of Section 15a (Directors' Dealings) of the German Securities Trading Act (WpHG) can be viewed in the business register. These notifications have also been posted on the company's website at http://www.phoenixsolar-group.com/en.html and listed under „Directors' Dealings" in an updated form and are accessible for the space of one month. The insider guidelines of Phoenix Solar AG provide for a blackout period which spans the time from the end of the period up until the publishing of the business results. The recommendation to insiders is that they should refrain from trading in the shares of the company during this period. External insiders, service providers and consultants for instance, are also notified of this blackout period.

In the financial year 2012, a number of individual reportable transactions within the meaning of Section 15a of the German Securities Trading Act were carried out by one member of the Executive Board. Not reportable pursuant to Section 15a of the German Securities Trading Act are the purchase or sale of the shares of Phoenix Solar AG if the sum total of transactions carried out by an individual member of the Executive Board of the Supervisory Board, or a person related to them, does not reach or exceed an amount of EUR 5,000.

As of 31 December 2012, Dr. Andreas Hänel, Chief Executive Officer, held 266,380 shares which were directly or indirectly allocable to him (31 December 2011: 231,300). This corresponds to a stake of 3.61 percent in the shares of the company (31 December 2011: 3.14 percent). All in all, the members of the Executive Board held 336,130 shares, the equivalent of 4.56 percent of the votes (previous year's reporting date: 301,356 shares, which is 4.09 percent). Members of the Supervisory Board held 20,367 shares, which corresponds to a stake of 0.28 percent (previous year's reporting date: 2,275 shares, which is 0.03 percent).

The members of both bodies together hold shares amounting to 4.84 percent (2011: 4.12 percent).

REMUNERATION REPORT

The details of the remuneration system of the Executive Board and the Supervisory Board, as well as itemised remuneration, are included under Section 1.1.4 of the GROUP MANAGEMENT REPORT.

STATEMENT ON CORPORATE GOVERNANCE PURSUANT TO SECTION 289A OF THE GERMAN COMMERCIAL CODE (HGB)

with the Declaration of Conformity by the Executive Board and the Supervisory Board of Phoenix Solar AG in respect of the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

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

RELEVANT CORPORATE GOVERNANCE PRACTICES

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

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

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

The Executive Board and the Supervisory Board constitute the dual board system of management and control of Phoenix Solar AG. They work closely together to ensure responsible opportunity and risk management with the aim of raising the enterprise value on a sustainable basis. In this task, the two functions of „management" and „supervision" are segregated.

The members of the Executive Board manage the company under their own responsibility and cooperatively. The basis for their cooperation are a set of bylaws. The Executive Board develops the corporate strategy and decides on measures for its implementation at the operational level. A clear allocation of tasks which accords with the schedule of responsibilities determines the competences of the individual members of the Executive Board. The entire Executive Board decides on all significant measures.

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

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

The Executive Board informs the Supervisory Board regularly within an appropriate period of time and extensively about all issues pertaining to the development of business, the strategy and planning, risk management and compliance with laws and defined codes of conduct. The Supervisory Board is informed immediately in the event of important occurrences which could exert a major impact on the company. Significant measures require approval by the Supervisory Board in accordance with the details laid down in the bylaws.

The Executive Board has not formed any committees.

The Supervisory Board, which consists of three members, supervises and advises the Executive Board in the management of the company. The Supervisory Board has established a set of bylaws as the basis for collaboration. The Supervisory Board agrees the strategy developed by the Executive Board and keeps itself informed about the status of strategy implementation, the financial and investment planning of the next financial year and medium-term planning. Outside the regular meetings, the Chairman of the Supervisory Board engages in ongoing dialogue with the Chairman of the Executive Board on the issues of strategy, business development, risk management and compliance.

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

In the past, the Supervisory Board consisted of six members and formed three consultative committees. Through a resolution passed by the Annual General Meeting of Shareholders on 21 June 2012, which took effect through entry into the Commercial Register on 28 June 2012, the Supervisory Board was reduced from six to three members. Since that date, there are no committees anymore as this is not practical and expedient with the three remaining Supervisory Board members. An efficient and effective discharging of duties is also secured through a Supervisory Board consisting of three members, also without forming committees.

The Audit Committee consisted of three members: Prof. Dr. Thomas Zinser (Committee Chairman), Mr. Oliver Gosemann and Dr. Patrick Schweisthal. The regulations set out under the GCGC requiring the Chairman of the committee to have expert knowledge and experience in the application of accounting principles and internal control procedures are fulfilled in the person of Prof. Dr. Thomas Zinser who is a tax consultant.

The Personnel Committee was made up of the following members: J. Michael Fischl (Committee Chairman), Dr. Torsten Hass and Prof. Dr. Klaus Höfle.

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

The working practices of the committees corresponded to those of the Supervisory Board.

JOINT DECLARATION OF CONFORMITY DATED 27 MARCH 2013

The Executive Board and the Supervisory Board of Phoenix Solar AG herewith declare that, since the last Declaration of Conformity dated 16 March 2012, the recommendations of the „Government Commission of the German Corporate Governance Code" in the version dated 26 May 2010 (published in the German Electronic Federal Gazette on 2 July 2010), were complied with and that the version dated 15 May 2012 (published in the German Electronic Federal Gazette on 15 June 2012) will be complied with in the future, with the following exceptions:

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

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

THE AUDIT COMMITTEE IS ALSO TASKED WITH ADDRESSING ISSUES OF COMPLIANCE.

(in accordance with Code Item 5.3.2)

Matters of compliance were addressed by the Personnel Committee in the period between submitting the Declaration of Conformity on 16 March 2012 and reducing the size of the Supervisory Board to three members owing to the special experience of the Chairman of the Supervisory Board who was also the Chairman of this committee. That it may be expedient to handle issues of compliance in a committee other than the Audit Committee has also been recognised by the Code in the version dated 15 May 2012.

DEADLINE FOR THE PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS.

(in accordance with Code Item 7.1.2)

The company's high quality requirements preclude a publication of the consolidated financial statements within the 90-day period. The financial statements will be published on the company's website a few days after the Supervisory Board meeting which adopts them.

Sulzemoos, 27 March 2013
Phoenix Solar Aktiengesellschaft

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

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

This page is intentionally left blank.

PHOENIX SOLAR SHARE

STOCK MARKET ENVIRONMENT

Following the losses of the previous year, the German and many European indices recovered as the year 2012 progressed, partly moving in the direction of previous all-time highs. This took place against the backdrop of a conflicting macroeconomic and political setting. The sovereign debt crisis in the euro zone placed a growing burden on the economic development in most of the countries affected which, in turn, dampened expectations of the global economy. Economists and analysts have in part substantially revised their growth forecasts downwards. In contrast, countermeasures at the level of the European Union resulted in the interest level remaining low and surplus liquidity, which also had an impact on the capital markets in the form of demand for high-yield equities.

In the first quarter, the DAX as Germany's leading index rose by a good 15 percent. By the end of May, however, it had shed all these gains and subsequently fell to its low for the year of 5,914 points at the start of June. In the summer months, the share price trend decoupled from the deteriorating economic expectations; with turnover at a low level, share prices entered an uptrend. The ensuing sideways movement in September and October led to a strong correction in mid-November. The leading index subsequently recovered swiftly again, however, and peaked on 19 December at 7,629 points.

The German second-tier indices also rose partly appreciably over the 12-month period. The MDAX closed at 11,914 points, which is 34 percent higher than at the start of the year. The SDAX climbed by almost 19 percent, while the TecDAX, which consists of the 30 largest technology companies below the DAX, emerged from trading at 828 points on 28 December, thus gaining 21 percent in comparison with the previous year.

The price of solar equities, however, remained under pressure. Photovoltaic Global 30, the sector's index, declined during the year on several occasions to historical lows and, by year-end, had lost around 38 percent compared with the year before. The reasons for the extremely weak market sentiment include, among other things, uncertainty about the development of government subsidies in Germany and on an international scale, ongoing price erosion which exerted considerable pressure on manufacturers of components and modules, as well as consolidation continuing unabated in the sector.

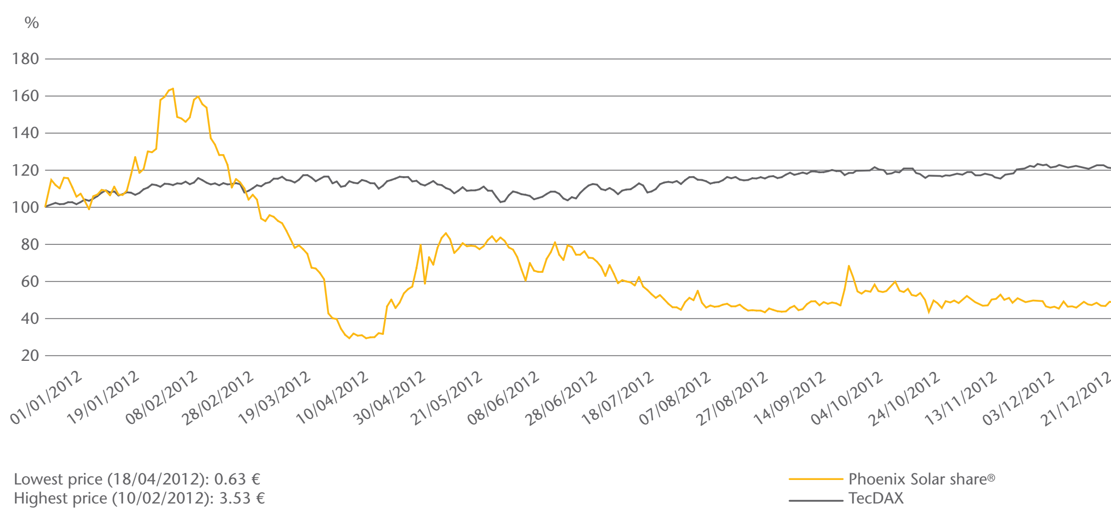
SHARE PRICE PERFORMANCE

The share of Phoenix Solar AG closed at EUR 1.049 on 28 December 2012, thereby shedding around 51 percent of its value over the course of the year. Market capitalisation stood at EUR 7.7 million at the end of the year (31 December 2011: EUR 15.6 million).

Against the background of the accelerating process of market consolidation, marked by further insolvencies of high-profile solar companies, and given the uncertainty about the success of the turnaround initiated, the share fell to its lowest point of EUR 0.63 on 18 April, down from its peak for the year of EUR 3.53 on 10 February. The share price then staged a recovery: In mid-May, following the conclusion of refinancing, it reached its highest level in the second quarter of EUR 1.85. On 2 July, the share closed at EUR 1.64, its highest level in the third quarter and, following losses in July, entered a sideways movement at around EUR 1.00 from the start of August. Only at the end of September and the start of October did the share price leave this level for short outliers to the upside. At this low level, it is to be expected that, similar to the shares of most solar companies, the interest of speculative investors will be aroused, triggering greater volatility in the share.

After the end of the financial year 2012, the price of the Phoenix SOLAR SHARE® rallied. Sentiment in the sector initially brightened somewhat at the start of 2013 at the news that the well-known investor Warren Buffett was committing funds to solar projects. Investors began to look for equities in the solar sector which they believed would have sustainable prospects after the end of the current crisis. The announcement that Phoenix Solar AG was to separate from loss-making areas of its business motivated many market participants to track our share or already add it to their portfolios. By mid-March, the share was already trading within a range of between EUR 1.50 and EUR 1.70.

Price performance of the Phoenix Solar share versus the TecDAX (01/01/ – 21/12/2012)



ANNUAL GENERAL MEETING OF SHAREHOLDERS

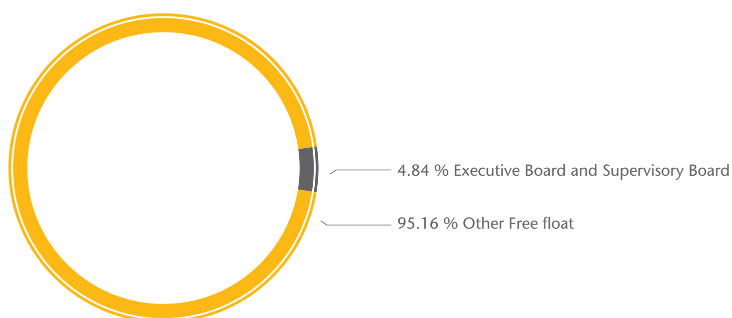
The regular Annual General Meeting of the shareholders of Phoenix Solar AG took place on 12 July 2012 in Fuerstenfeldbruck. All items on the agenda were approved with majorities of more than 90 percent. Presence during the casting of votes came to around 11 percent of the voting share capital of EUR 7,372,700. Owing to the high losses, no dividend was paid for the financial year 2011.

The company will not be paying dividend for the financial year 2012 either for the same reason. A return to the investor-oriented dividend policy practised in previous years depends on how the company's business develops in the coming years.

SHAREHOLDER STRUCTURE

In the financial year 2012, we received a number of notifications submitted pursuant to Section 21 para. 1 of the German Securities Trading Act (WpHG) in which shareholders indicated that their holdings had fallen below the statutory thresholds. At present, no external shareholders who hold more than 3 percent of the shares in Phoenix Solar AG are known. As of 31 December 2012, the Executive Board and the Supervisory Board held 4.84 percent of the shares. According to the definition of Deutsche Börse AG, 100 percent of the shares of Phoenix Solar AG are in free float.

Composition of shareholders as to 31/12/2012



INVESTOR RELATIONS

Market sentiment in respect of the solar sector, the low market capitalisation of Phoenix Solar AG and the ongoing restructuring of the company caused the interest of capital market participants in the Phoenix SOLAR SHARE® to decline significantly. Nonetheless, the company continued to pursue its active financial communication and reported in particular about the signing of the new financing agreement in May 2012 and on the general course of business.

The business model, the performance and the outlook of Phoenix Solar AG were discussed with capital market participants in telephone conferences arranged when the Group's financing was concluded in mid-May and on the release of the quarterly figures in August and November respectively. Analysts conferences were held by the company at the German Equity Forum in Frankfurt am Main in November and at the Munich Capital Markets Conference in December.

In addition, analysts continue to seek the expertise of management, as before, and keep themselves informed about developments in the market and the regulatory environment. These topics were also the focus of many one-on-one discussions with analysts during the Intersolar trade fair which took place Munich in June, at the Solar Conference in Orlando, Florida, in September, as well as at the Alternative Energy Conference organised by the Macquarie Bank in London in October. The Chief Financial Officer also took part in a podium discussion here.

The company's Financial Calendar 2013 has been posted on our website under the „Investor Relations" heading and is regularly updated to include new events.

ANALYST COVERAGE

Following restructuring and share price losses, the interests of research departments in the Phoenix SOLAR SHARE® declined substantially over the course of the financial year 2012. Whereas, at the end of 2012, there were still 15 analysts regularly reporting on Phoenix Solar, only one remained in the first quarter of 2013. On 21 February 2013, Close Brothers Seydler published an update with a „hold" rating and a share price target of EUR 1.40.

Key Figures

		Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	2011
Number of shares[1]	Units	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700
Market capitalisation[1]	€	10,248.053	11,796,320	9,879,418	7,741,335	7,741,335	15,851,305
Closing price (Xetra)	€	1.39	1.60	1.34	1.05	1.05	2.15
Highest price	€	3.53	1.85	1.64	1.28	3.53	26.00
Lowest price	€	1.39	0.63	0.93	0,94	0.63	2.08
Trading volume	Stück	4,333,023	7,519,192	1,959,989	1,378,844	15,191,048	14,711,365
	€	10,840,110	9,122,507	2,280,144	1,501,811	23,744,573	212,995,316
Earnings per share[4]	€[2]	– 0.12	– 2.25	– 3.03	– 4.97	– 4.97	– 11.80
	€[3]	– 0.12	– 2.25	– 3.03	– 4.97	– 4.97	– 11.80

[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 31/12/2011	7,372,700 units
Share capital on 31/12/2011	€ 7,372,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	XETRA, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin, Düsseldorf, Hamburg, Hanover
Sector/sub-sector	Industrial Products & Services/Renewable Energies
Indices	CDAX, Prime All Share, Technology All Share, various sector and sub-sector indices of Deutsche Börse AG
End of the financial year	31 December
Accounting standards	IFRS
Commencement of stock market listing	18/11/2004
Designated Sponsor	HSBC Trinkaus & Burkhardt AG

GROUP MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2012

1 Business activity and framework conditions ... 027
1.1 Group structure and business activity ... 027
1.2 Management and strategy ... 034
1.3 Report pursuant to section 315 (4) HGB ... 035
1.4 Summary of business developments in 2012 ... 037

2 Results of operations, cash flows and financial position ... 043
2.1 Results of operations ... 043
2.2 Cash flows ... 050
2.3 Financial position ... 051

3 Employees ... 052

4 Sustainability ... 053
4.1 Environmental protection ... 053
4.2 Commitment to social responsibility ... 054
4.3 Rating ... 054

5 General assessment of the company's economic situation ... 055
5.1 Management's assessment of the economic situation ... 055
5.2 Estimate-sensitive accounting methods ... 055

6 Events after the reporting date ... 056
6.1 Important events after the reporting date ... 056
6.2 Effects of these events on the company's operating results, cash flows and financial position ... 057

7 Report on opportunities and risks ... 057
7.1 Management of opportunities and risks ... 057
7.2 Report on risks related to financial instruments ... 058
7.3 Opportunities ... 058
7.4 Risks ... 059
7.5 General assessment of the group's risk situation ... 062

8 Forecast report ... 062
8.1 Future business strategy ... 062
8.2 General economic conditions ... 063
8.3 Anticipated business performance ... 064
8.4 Anticipated development of financing and liquidity ... 065
8.5 Future dividend policy ... 065

1 BUSINESS ACTIVITY AND FRAMEWORK CONDITIONS

1.1 GROUP STRUCTURE AND BUSINESS ACTIVITY

1.1.1. ADOPTION OF A NEW BUSINESS STRATEGY

In February 2013, after the close of the financial year 2012, Phoenix Solar adopted an entirely new business strategy, which is currently being implemented. Phoenix Solar AG will divest itself of loss-making divisions operating in markets that were not and are not expected to experience a quick recovery, by reason of various on-going changes, particularly also in the regulatory environment.

In its future operating activities, Phoenix Solar will focus on high-growth regions in Asia and the United States. The Group's subsidiaries in those regions are well established in their markets and possess the necessary capabilities to sustainably manage and further develop their business activities on their own. In Europe, the Group's subsidiaries in France and Greece are well positioned. On the other hand, capacities in Spain and Italy will be cut back to a minimum, due to the prevailing market uncertainties and the inability to reach income targets in those markets.

The trading and project business that had previously been managed from Germany will be discontinued in its previous form. In Germany, Phoenix Solar will continue to operate the Operation & Maintenance division for solar power plants at the Ulm location and will pursue the development of new business models in the project and trading business.

On 11 February 2013, Dr. Andreas Hänel, the founding member of the Executive Board of Phoenix Solar AG, resigned from his Executive Board position before the expiration of his contract, effective 28 February 2013.

1.1.2 LEGAL STRUCTURE OF THE GROUP

Phoenix Solar is an international photovoltaic systems integrator. The parent company Phoenix Solar AG was formed on 18 November 1999 and was registered in the Commercial Register of the Munich District Court under Record No. 129117 on 7 January 2000. Besides the parent company, the Group comprises 10 subsidiaries and 15 project companies, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

1.1.3 OPERATING SEGMENTS AND ORGANISATION

Phoenix Solar AG has its headquarters in Sulzemoos, close to Munich. The central divisions were managed from this location in the financial year 2012. The Chief Executive Officer was responsible for Corporate Strategy & Business Development, Worldwide Sales, Engineering & Innovation, Marketing and Public Relations. The Chief Financial Officer was responsible for Finance, Personnel & Organisational Development, International Process & IT Management, Controlling & Internal Audit, Investor Relations and Legal & Compliance. The Chief Operating Officer, who is also the CEO and President of the U.S. subsidiary, was responsible for Procurement, Logistics and Quality Assurance & Complaints until 1 June 2012. Effective 1 June 2012, the Chief Financial Officer additionally assumed responsibility for Procurement, Logistics and Complaints, and the Chief Executive Officer additionally assumed responsibility for Quality Management. In exchange, the Chief Operating Officer assumed responsibility for the Asian business. Following the resignation of Dr. Andreas Hänel from the Executive Board, the central divisions that had previously been managed by him and are still relevant under the new business strategy are now managed by Dr. Bernd Köhler, who also assumed the position of Chief Executive Officer.

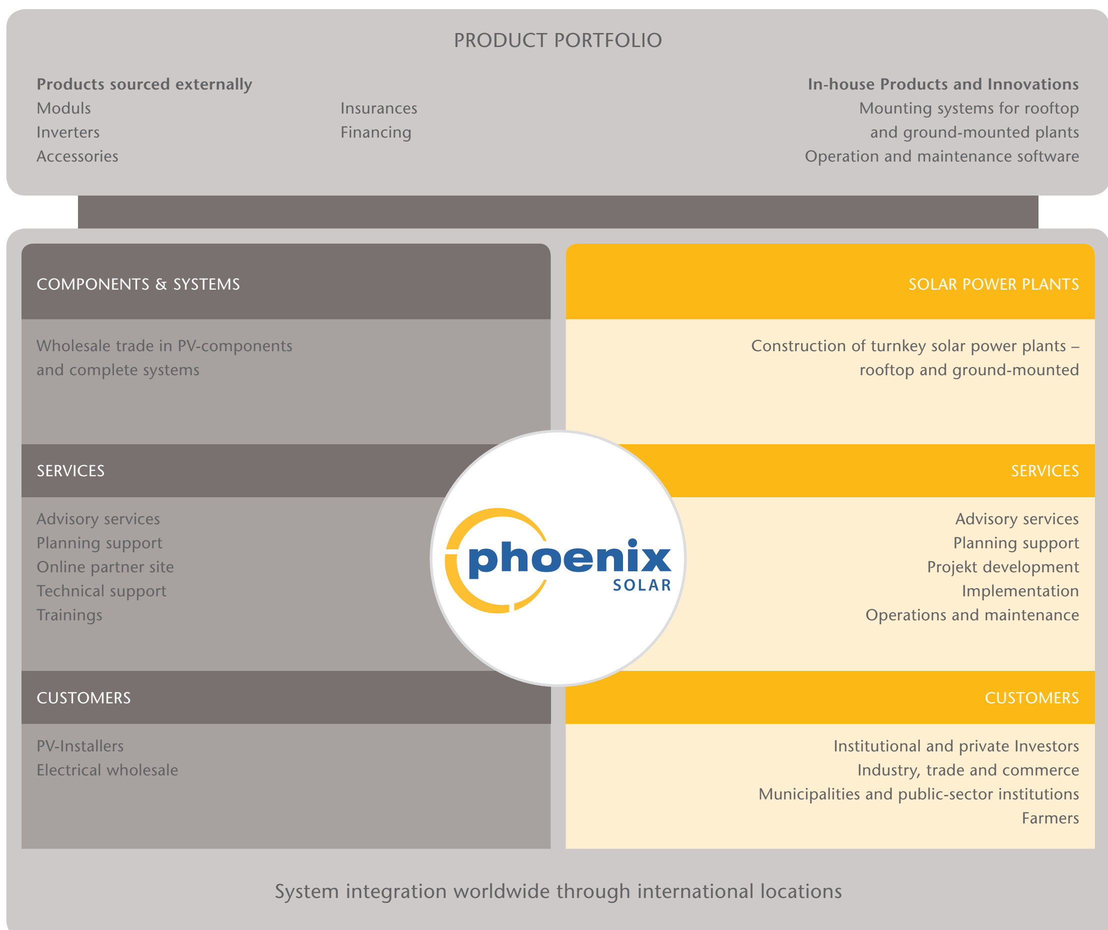
As an international photovoltaic systems integrator, Phoenix Solar develops, plans, builds and operates large-scale photovoltaic power plants. It is also a specialised wholesaler of complete solar power systems, solar modules and accessories. These two focal points are reflected in the operating segments of Power

Plants and Components and Systems. As a general rule, this division is also observed in the subsidiaries, subject to local adjustments. For example, the U.S. subsidiary has only been active in the project business to date.

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

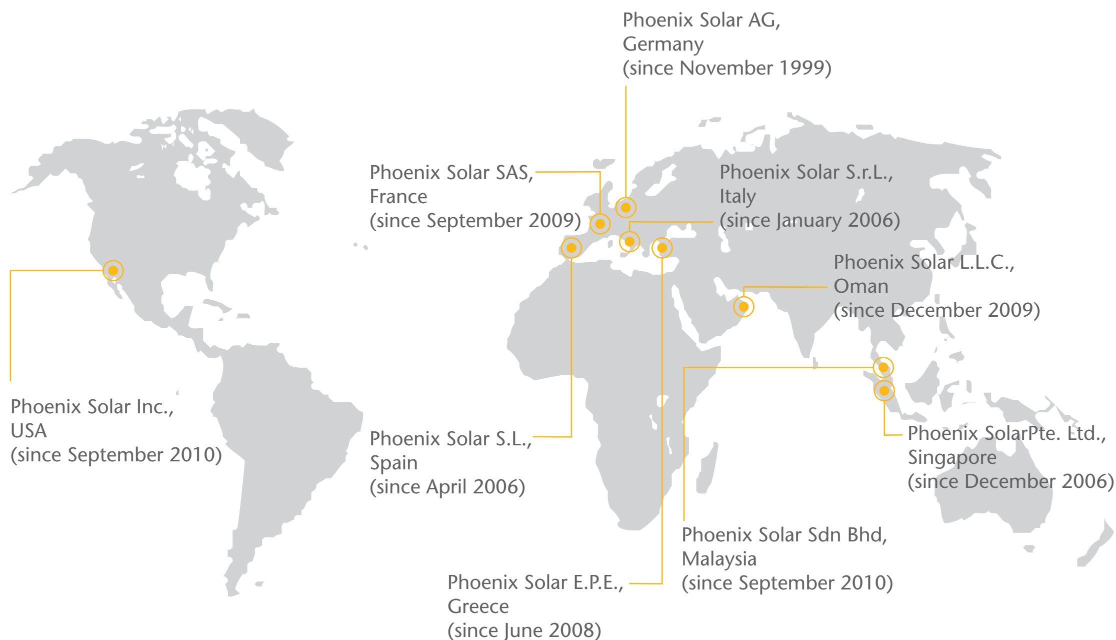
In its Power Plants segment, Phoenix Solar handles the necessary planning work and the turnkey construction of photovoltaic systems, including the subsequent operation and maintenance. Customers include private individuals, retail companies, industrial companies and trade companies. Other target customers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

Business Model



By means of this business model, Phoenix Solar covers all sizes of grid-connected photovoltaic systems, from roof-top systems with a peak output of one kilowatt (kWp) mounted on private homes to large power plants in the double-digit megawatt range. The two operating segments complement each other ideally and generate a number of synergies.

Company locations



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

1.1.4 MAJOR LOCATIONS

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

Apart from the company's headquarters in Sulzemoos, close to Munich, the Group maintains important locations in San Ramon, California (United States), Singapore (Singapore), Lyon (France), Athens (Greece), Rome (Italy), San Sebastián (Spain), Kuala Lumpur (Malaysia) and Ulm (Germany). The subsidiary in Oman is to be closed.

1.1.5 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops the Group's business strategy, in coordination with the Supervisory Board. The business strategy is reviewed annually and adjusted to reflect the dynamic development of the international solar power market and the rapid changes in the market introduction programmes of photovoltaic products and systems. The medium-term goal is to serve markets at the earliest possible stage of their development and to develop new business models that are not dependent on state subsidies.

The individual tasks of Executive Board members and the cooperation among them are governed by the executive division of responsibilities plan and by internal rules of procedure. The Executive Board makes decisions on relevant topics and holds intensive, regular consultations on important developments in the managerial divisions. In addition to exercising their divisional responsibilities, the individual members of the Executive Board are also represented on the supervisory bodies and managerial functions of the subsidiaries in Singapore, the United States and Italy.

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

The Supervisory Board of Phoenix Solar AG, which has been composed of three (as opposed to formerly six) members since 28 June 2012, advises the Executive Board and supervises its activities and decisions.

COMPENSATION REPORT

Basic principles of the compensation system for the executive board and supervisory board

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

EXECUTIVE BOARD

The compensation of Executive Board members is composed of a fixed, non-success-dependent component and a variable, success-dependent component. By that means, the individual Executive Board members are rewarded for their performance and level of responsibility in dependence on the company's economic situation and success.

In the financial year 2012, the total compensation of Executive Board members was composed of the non-success-dependent components and success-dependent components described below.

The non-success-dependent components include a monthly base salary, the provision of a company car for business and personal use in accordance with the Company Car Guideline, and the payment of a premium for an accident insurance policy that primarily covers accidents on the job, but also covers liability in the private sphere.

In connection with the implementation of the German Executive Board Compensation Act, the Group revised the rules applicable to success-dependent compensation components in 2010. As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals is applied. To ensure that the compensation system is appropriately geared to long-term success, long-term incentives were installed in the form of an EBIT hurdle for the quantitative goals and a bonus index system based on a multiplier concept, which was developed by the Swiss research firm Obermatt. The EBIT hurdle ensures that a bonus will be paid only if the adjusted EBIT is appropriate relative to the total compensation costs of the Executive Board and Supervisory Board. The advantages of the bonus index system developed by Obermatt lie in the fact that it allows for the objective measurement of performance by comparing revenues and earnings with those of similarly positioned companies. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the operating

rank, which is determined by comparing the company's revenues and EBIT with those of comparable exchange-listed companies that publish appropriate financial reports. The compensation is calculated by multiplying a base amount, which is specifically agreed with the respective Executive Board member, by a multiplier that is derived from the performance ranking within the comparison group. The multiplier can only be greater than 0 when Phoenix Solar's rank is better than the last quantile of the comparison group. If Phoenix Solar is ranked No. 1, the multiplier takes the maximum value of 3. In that case, Phoenix Solar has outperformed all the comparison companies. Earned bonuses are paid on two different due dates. The first instalment is paid in the first half of the subsequent year and the second instalment is usually paid in the first half of the year following the subsequent year, unless the EBIT hurdle is applicable in the subsequent financial year; if the EBIT hurdle is applicable, the second instalment can be carried forward by one year, but will be forfeited in the second subsequent year if the EBIT hurdle is also applicable in that year.

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

The total compensation granted to the Executive Board in the financial year 2012 amounted to kEUR 872 (PY: kEUR 947). This compensation is presented on an individually itemised basis in the table below:

In k€	Non-success-dependent components		Success-dependent components		Components with a longterm incentive effect		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Dr. Andreas Hänel	218	255	36	42	0	0	254	297
Dr. Murray Cameron	139	157	39	33	0	0	178	190
Dr. Bernd Köhler	191	16	153	4	65	5	409	25
Sabine Kauper*	0	166	0	32	0	0	0	198
Ulrich Reidenbach*	25	210	6	27	0	0	31	237
Executive Board total	**573**	**804**	**234**	**138**	**65**	**5**	**872**	**947**

*Dr. Andreas Hänel resigned from the Executive Board at the close of 28 February 2013; Ulrich Reidenbach resigned from the Executive Board effective 31 January 2012. Sabine Kauper resigned from the Executive Board effective 31 December 2011.

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

No loans were extended to members of the Executive Board.

SUPERVISORY BOARD

The compensation system for the Supervisory Board was revised and adopted as such by the annual general meeting of 21 June 2012, in accordance with Article 11 of the company's Articles of Association. Until then the compensation of Supervisory Board members had been composed of fixed, non-success-dependent components and variable, success-dependent components. The annual general meeting of 21 June 2012 resolved to grant a lower amount of fixed annual compensation to Supervisory Board members, also in consideration of their time and effort. The new compensation system took effect at the close of the annual general meeting of 21 June 2012.

a) Non-success-dependent compensation In accordance with the new compensation system, compensation of EUR 15,000 per financial year was paid to each member of the Supervisory Board. The Chairman received two and a half times this amount, or EUR 37,500, and the Vice Chairman received one and a half times this amount, or EUR 22,500. Supervisory Board members who served on the Supervisory Board for only part of the financial year received one twelfth of the above-mentioned compensation for every started month of activity. In addition, each member of the Supervisory Board was paid an attendance fee of EUR 1,000 for every Supervisory Board meeting attended by the member. These amounts were paid after each meeting. The company reimburses Supervisory Board members for their expenses and for the value-added tax incurred by them for their work on the Supervisory Board. As further ancillary benefits, the company provides insurance coverage to the members of the Supervisory Board and provides technical support to the Chairman, of an amount that is appropriate for his activity as the Supervisory Board Chairman.

For the period during which Supervisory Board committees were formed, the Chairman of the Personnel Committee received additional compensation of EUR 7,500 and the Chairman of the Audit Committee received EUR 15,000. The additional, success-oriented compensation of the respective committee chairmen that was resolved by the annual general meeting in 2011 was not paid.

Furthermore, the members of the Supervisory Board waived 15 percent of their fixed compensation, by reason of the company's difficult situation. This decrease is included in the tabular summary presented below.

b) Success-dependent compensation Under the compensation system in effect until the close of the day of the annual general meeting of 21 June 2012, the members of the Supervisory Board also received compensation geared to the long-term success of the company. This compensation was calculated with reference to the average earnings per share, based on the consolidated financial statements of the last three financial years, respectively ("average earnings per share"), provided that this figure was positive. The Supervisory Board members did not receive any success-dependent compensation in financial year 2012.

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

The total compensation granted to the Supervisory Board in 2012 amounted to kEUR 196 (PY: kEUR 389). The itemised compensation granted to individual members of the Supervisory Board is presented below (net figures, exclusive of value-added tax):

In k€	Non-success-dependent components (incl. ancillary benefits)		Success-dependent components (incl. performance bonus)		Components with a longterm incentive effect		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
J. Michael Fischl	63	91	0	15	0	0	63	106
Prof. Dr. Klaus Höfle*	18	38	0	5	0	0	18	43
Dr. Patrick Schweisthal*	23	57	0	8	0	0	23	65
Prof. Dr. Thomas Zinser	45	71	0	10	0	0	45	81
Oliver Gosemann	30	45	0	5	0	0	30	50
Dr. Torsten Hass	17	39	0	5	0	0	17	44
Total	**196**	**341**	**0**	**48**	**0**	**0**	**196**	**389**

* Prof. Dr. Höfle and Dr. Schweisthal resigned from the Supervisory Board effective 28 June 2012, when the resolution of the annual general meeting of 21 June 2012 to reduce the size of the Supervisory Board was recorded in the Commercial Register. Dr. Hass resigned from the Supervisory Board at the close of the same annual general meeting.

1.1.6 IMPORTANT PRODUCTS, SERVICES AND BUSINESS PROCESSES

The Phoenix Solar Group offered a broad-based, innovative product portfolio for photovoltaic plants of all sizes in 2012. Thus, we were able to accommodate the needs of different customers in a flexible, individualised manner. The diverse offering particularly comprised solar modules produced by different manufacturers, based on different technologies. Because Phoenix Solar was not tied to a particular module technology, it was able to offer photovoltaic systems that were tailored to the needs of individual customers and aligned with market trends.

An important service that has been and is still offered by the Phoenix Solar Group is provided by the division Operation & Maintenance (O&M) of solar power plants, based in Ulm. The O&M division assures problem-free, earnings-optimised operation of photovoltaic systems around the world, representing a total installed capacity of more than 200 MWp.

By reason of the fact that Phoenix Solar operates in the market as a manufacturer-independent photovoltaic systems integrator, research and development are not core functions of our company; research and development expenses are not incurred at all, or only in extremely small amounts. Nonetheless, Phoenix Solar expanded its product range through the regular addition of new technologies and innovative products. For that purpose, we observed the entire market so that we could always offer optimal solutions to our customers. For example, Phoenix Solar added an extremely competitive photovoltaic self-consumption solution featuring a storage battery to its product portfolio in 2012. The market introduction of this product was very promising.

However, the Group's future focus on the international business and on the development of innovative business models will entail far-reaching changes to the company's portfolio of products and services, especially in the German market. Phoenix Solar will cease to develop its own photovoltaic sub-structures. The core element of Phoenix Solar Germany's international service offering in the future will be the operation and maintenance of power plants.

In our estimation, the German photovoltaic market will undergo a substantial contraction in 2013 already, particularly as a result of the constant changes, debates and announcements pertaining to the regulatory environment. Therefore, the activities of Phoenix Solar in the German photovoltaic market will be focused on developing new business models that are not dependent on the German Renewable Energy Sources Act; in this connection, the depth of the company's own production activities will also have to be redefined.

1.1.7 KEY SALES MARKETS AND COMPETITIVE POSITION

Through its operating subsidiaries, Phoenix Solar AG is currently active on three continents. In Europe, it operates in Germany, France, Italy, Spain and Greece. The subsidiary in Singapore has served the fast-growing markets of Southeast Asia, including the Philippines and Thailand, for example, and coordinated the Group's business in that region for the last seven years.

Through the subsidiary formed in Oman in 2009, Phoenix Solar was also active in the solar power markets of the Persian Gulf region. As part of our new business strategy, however, we plan to close this subsidiary. The U.S. market has been served by a subsidiary in San Ramon, California, since 2010. It has established itself in the market by successfully executing its first projects. For example, the U.S. subsidiary completed a 9.5 MWp project on the grounds of Volkswagen's manufacturing plant in Chattanooga, Tennessee. Nonetheless, Phoenix Solar Inc. occupied only a marginal position in the U.S. market in the financial year 2012.

In Germany, Phoenix Solar's market share declined from 1.8 percent in 2011 to roughly 0.6 percent in 2012. The weakening of the company's market position in Germany, which started already before 2011, was ultimately one of the reasons behind the decision to restrict operating activities in Germany to power plant operation and maintenance and thus discontinue the operations of the Components & Systems segment and the Power Plants segment in Germany.

In this year, which was extremely difficult for the photovoltaic industry in general, but also for the Phoenix Solar Group, our subsidiaries in France and Greece also lost market shares. At the end of 2012, Phoenix Solar's market share in France was about 1.0 percent and in Greece it was about 2.2 percent. Nonetheless, we believe that our subsidiaries still hold promising market positions in these countries.

1.2 MANAGEMENT AND STRATEGY

1.2.1 INTERNAL MANAGEMENT SYSTEM

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

Business developments are monitored and budget-actual variances are documented in monthly management reviews attended by the heads of the segments or national subsidiaries and the Executive Board. Depending on the amount and significance of budget-actual variances, appropriate counter-measures are adopted and implemented and the effects of such measures are monitored in subsequent management reviews. By this means, the planned earnings for 2012 (before the restructuring expenses incurred by reason of the new business strategy) were achieved despite the fact that revenues came in significantly lower than planned.

In accordance with Section 91 (2) AktG, the Executive Board is obligated to install a Groupwide system for the early detection of risks, in order to detect at an early stage any risks that could endanger the company's survival as a going concern. The management has taken suitable steps to install an early risk detection system as required by Section 91 (2) AktG. The early risk detection system is appropriately designed to detect at an early stage any risks that could endanger the survival of the Phoenix Solar Group as a going concern.

1.2.2 STRATEGY

Strategically, Phoenix Solar AG pursues the goal of first solidifying, and then continuously expanding as soon as possible its position as an internationally active supplier of photovoltaic systems, one that is not bound to specific manufacturers. Phoenix Solar strives to become more independent of state subsidies, so as to counter the risks inherent in the dependency that currently exists. We intend to achieve this goal by focusing on fast-growing regions and by developing new business models that are not dependent on state subsidy programmes.

After the significant losses sustained in financial years 2011 and 2012, the goal of the Executive Board and the entire company is to return Phoenix Solar to a path of profitable growth and increase the company's value again. As mentioned above, an entirely new business strategy was adopted in February 2013, after the close of the financial year. The new strategy is currently being implemented. Phoenix Solar AG will divest itself of loss-making divisions operating in markets that were not and are not expected to experience a quick recovery, by reason of various on-going changes, particularly also in the regulatory environment. In its future operating activities, Phoenix Solar will focus particularly on high-growth regions in Asia and

the United States. The Group's subsidiaries in those regions are well established in their markets and possess the necessary capabilities to sustainably manage and further develop their business activities on their own. In Europe, the Group's subsidiaries in France and Greece are well positioned. On the other hand, capacities in Spain and Italy were cut back to a minimum, due to the prevailing market uncertainties and the inability to reach income targets in those markets. The trading and project business that had previously been managed from Germany will be discontinued in its current form.

Because we are still convinced that photovoltaic technology holds great promise, also in Germany, in the medium-term and long-term future, we will also pursue the goal of developing new business models in the project and trading business.

1.3 REPORT PURSUANT TO SECTION 315 (4) HGB

As of 31 December 2012, the share capital of Phoenix Solar AG amounted to EUR 7,372,700, unchanged from the prior year. It is divided into 7,372,700 no-par bearer shares. All shares are issued and fully paid up. In accordance with Article 5 para. 5 of the Articles of Association, shareholders are not entitled to individual physical certificates. The bearer shares may be transferred without the company's consent. All shares are common shares. Every share conveys equivalent, full co-determination and property rights and one vote per share in the annual general meeting. Further rights and obligations of the shareholders are established in the German Stock Corporations Act (AktG), particularly Sections 53a ff. and 118 ff. AktG.

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

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

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

Amendments to the Articles of Association are subject to the statutory provisions of Sections 133, 179 AktG. In accordance with Article 12 para. 3 of the company's Articles of Association, the Supervisory Board is authorised to resolve amendments that only affect the wording. By virtue of the resolutions of the annual general meetings of 7 July 2006, 16 June 2010 and 14 July 2011, the Supervisory Board is also authorised to amend Article 5 of the Articles of Association to reflect the respective utilisation of the Conditional Capital 2006, the Conditional Capital 2010 and the Authorised Capital 2011. The Supervisory Board is similarly authorised after the expiration of the respective authorisation periods, and, in the event that the Conditional Capital 2010 would not be utilised, after expiration of all conversion and/or warrant periods.

The Supervisory Board appoints and revokes the appointments of Executive Board members in accordance with the statutory provisions of Sections 84 ff. AktG. The number of Executive Board members and any alternate Executive Board members is determined by the Supervisory Board in accordance with Article 6 para. 1 of the company's Articles of Association.

By resolution of the annual general meeting of 16 June 2010, the Executive Board was authorised, with the consent of the Supervisory Board, to purchase treasury shares representing no more than 10 percent of the company's share capital, either in the stock market or by means of a public purchase offer to all shareholders, and to resell them in the time until 15 June 2015. Further particulars are set out in the draft resolution published in the electronic Federal Gazette of 7 May 2010 and approved in this form.

By resolution of the annual general meeting of 14 July 2011, the Executive Board was authorised, with the consent of the Supervisory Board, to increase the company's share capital by a total of up to EUR 3,686,350 through the issuance of up to 3,686,350 new bearer shares in exchange for cash or in-kind capital contributions, on one or more occasions in the time until 13 July 2016 (Authorised Capital 2011). A subscription right must be granted to shareholders, as a general rule.

The Executive Board is authorized, with the consent of the Supervisory Board, to exclude the subscription right particularly 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), 186 (3) (4) of the German Stock Corporations Act does not exceed 10 percent of the company's share capital at the time when the present authorization takes effect or when it is exercised, whichever is lower; and

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

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

No further stock options may be issued under the authorisation resolved by the annual general meeting of 7 July 2006, which was in effect until 1 July 2011, to establish a Stock Option Plan 2006, which entailed the issuance of stock options granting subscription rights to shares of the company to members of the Executive Board, members of the senior management of Group companies and other selected executives and key employees, under the exclusion of the shareholders' subscription right. No stock options were exercised in financial year 2012. As of 31 December 2012, five tranches comprising a total of 340,350 stock options had been issued to this group of persons. Of this total, 232,250 stock options had been forfeited due to resignation, leaving 90,100 stock options as of the reporting date. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company will not have been terminated by either party at the time of exercising the stock options. The exercise price is not less than EUR 20 for any of the tranches. Further details on the Stock Option Plan are provided in the Compensation Report and in the notes to the consolidated financial statements, Section F Chapter (40).

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

The syndicated loan agreement concluded on 11 May 2012 and subsequently amended and reformulated by agreement of 11 February 2013 contains change-of-control clauses in the event of a takeover offer. Under this agreement, all drawdowns under the credit facility will be due and payable within 14 days if one person or several persons “acting in concert” would gain control over the company (“change of control”). For this purpose, control is defined as the holding (either directly or indirectly) of a qualified minority stake (more than 30 percent) of the shares or voting rights in the company, or the right to appoint or revoke the appointments of Executive Board members, or to appoint the management and/or the Supervisory Board of the company.

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

1.4 SUMMARY OF BUSINESS DEVELOPMENTS IN 2012

1.4.1 GENERAL ECONOMIC CONDITIONS

The basic outlook for global economic growth grew increasingly dim during the course of 2012. The still unresolved sovereign debt crisis in Europe was a particular cause for concern. Against this backdrop, the International Monetary Fund (IMF) made several downward corrections to its economic forecasts during the course of 2012. At the end of the year, it predicted that the global economy would expand at a rate of 3.2 percent.

Whereas Germany and France experienced positive growth of 0.9 percent and 0.2 percent, respectively, thanks to a strong first half in 2012, the economic output of the overall euro zone contracted by 0.4 percent. In countries like Italy and Spain, on the other hand, economic output declined appreciably by -1.4 percent and -2.1 percent, respectively. At 1.3 percent, the aggregate growth of the industrialised nations was weaker than the IMF had originally expected; the consequences of the sovereign debt crisis in Europe and the recession in major European countries were major factors contributing to this growth weakness.

The situation appears to be better in the United States of America, which recovered in 2012 from the faltering trend of prior years to generate growth of 2.3 percent, despite the still unresolved fiscal problems of the U.S. federal budget. As before, the main growth drivers were the emerging-market countries, even though the growth rates of China, at 7.8 percent, and India at 4.5 percent were not as strong as the growth rates of prior years.

1.4.2 DEVELOPMENTS IN THE PHOTOVOLTAIC SECTOR

The worldwide photovoltaic sector experienced moderate growth in 2012, even as the industry was affected by on-going consolidation. According to preliminary estimates of the market research firm IHS iSuppli, worldwide installed photovoltaic capacity rose by around 31 gigawatt of peak output (GWp) to reach about 100 GWp. As in 2011, this growth was propelled by the extreme decline in prices of photovoltaic modules, although market conditions in key markets such as Germany, Italy, France and Spain deteriorated as a result of sharp subsidy reductions or by the introduction of additional income taxes on electricity generated using photovoltaic systems. Nonetheless, the decrease in European demand for photovoltaic systems was more than offset by the positive development of Asian and U.S. markets. According to projections of IHS iSuppli, the five biggest photovoltaic markets in 2012 were Germany (7.9 GWp), China (4.8 GWp), Italy (3.5 GWp), USA (3.4 GWp) and Japan (2.5 GWp). Although Europe is still a major sales market, Bank Sarasin predicts that it will probably surrender its dominant position to Asia over the next four to five years.

According to the photovoltaic market platform sologico (formerly PVXchange), prices of photovoltaic modules fell by up to 55 percent in 2012, depending on the technology and country of origin. Compared to the maximum price erosion of 42 percent in 2011, this new figure suggests a renewed worsening of market conditions. As a result of this trend, further market players experienced financial difficulties or even filed for bankruptcy. Besides module makers, manufacturers in the production stages of polysilicon, silicon blocks and wafers and photovoltaic cells were particularly hard hit by the resulting drop in profit margins.

As in the 2011, market participants are increasingly designing their business models to reflect the grid parity that has been achieved in some regions. Some photovoltaic power plants that have been commissioned in Southern Europe and South America follow business models that are not based on feed-in subsidies, but on self-consumption. Furthermore, the number of battery-supported self-consumption systems increased (although from a lower baseline), particularly in the segment of private roof-top systems. The most important factor in these new photovoltaic systems is not the return to be generated from photovoltaic subsidies, but the favourable electricity-generating costs of a photovoltaic system, the savings compared to purchasing electricity from an outside provider and the protection against rising electricity prices and power outages in the future.

Something of a "solar trade war" broke out between the European Union, the United States and the People's Republic of China in 2012. Many European and American manufacturers have been crippled by the constantly falling prices for solar modules. The blame for this trend is being placed primarily at the feet of Chinese manufacturers, for selling their products below production cost thanks to government subsidies. The United States imposed high punitive tariffs on imported modules from China. In Europe, 25 solar companies banded together to form the initiative EU ProSun and filed a complaint with the European Union for alleged unfair competition, whereupon the EU opened an anti-dumping investigation in September. In return, the Chinese authorities are conducting an investigation to determine whether polysilicon imports, most of which originate from the European Union, violate Chinese anti-dumping rules.

Sales market Germany

According to preliminary figures published by the German solar trade association BSW, the German photovoltaic market reached a new record volume of 7.6 GWp in 2012. The volume of new installed capacity in 2012 exceeded the prior-year figure by 100 MWp. Considering the sharp drop in feed-in rates, the increase in new installed photovoltaic capacity was only possible because system prices also declined substantially over the same period. While the feed-in rates paid under the German Renewable Energy Sources Act for electricity generated by photovoltaic systems fell by an average of 45 percent, according to BSW data, the prices of photovoltaic systems declined by 22.5 percent in 2012. Thus, feed-in rates fell by a greater percentage than system prices in 2012, for the first time ever. This development resulted in lower returns for end customers and an historically low Photovoltaic Business Climate Index, due to mostly negative business expectations.

According to preliminary estimates of the BSW, moreover, the production of photovoltaic electricity increased by nearly 45 percent over the prior year to reach 28,000 gigawatt-hours (GWh) in 2012. According to data of the Fraunhofer-Institut für Solare Energiesysteme (ISE), photovoltaic power now accounts for roughly 5.7 percent of net electricity consumption in Germany. This figure had only been 3.9 percent in 2011.

International sales markets

The photovoltaic market in Greece exhibited a generally positive development in 2012. The volume of this country's photovoltaic market is estimated to be 700 MWp, as compared to 414 MWp in 2011. The market is still being held back by financing bottlenecks, particularly for large-scale photovoltaic systems. In the segment of small roof-top systems, demand was crimped by an unscheduled reduction in feed-in ra-

tes of up to 46 percent in August. The fact that feed-in rates are still comparatively high, coupled with the fact that the government provides the funding itself, instead of passing the cost to electricity customers, prompted the Greek parliament to adopt further drastic changes in its subsidy policy, including the imposition of income taxes also on solar systems that have already been connected to the grid. Presumably, the market will divide into two segments, one for smaller systems with a peak output of up to 10 kilowatt, the other for very large photovoltaic systems, which are competitive and have reached grid parity due to economies of scale.

Bureaucratic hurdles are hampering the development of the French market. The feed-in rates for photovoltaic systems up to 100 kWp are being reduced on a quarterly basis; the budgets for that purpose are likewise adopted on a quarterly basis. On the other hand, the first large-scale photovoltaic power plants financed without government subsidies are still in the development phase. In January 2013, the French government elected in May 2012 issued a press release stating its intention to improve the subsidisation of photovoltaic systems. The subsidies available for systems smaller than 100 kWp were doubled to 400 MWp and the feed-in rate for roof-type systems was increased by 5 percent. Furthermore, tender procedures for photovoltaic systems ranging in size from 100 to 250 kWp were simplified.

The expected volume of the Italian market fell to more than 3 gigawatt in 2012, as compared to 9.26 GWp in 2011. The new energy programme Conto Energia V took effect in August 2012. The feed-in rates apply to photovoltaic plants with a peak output of up to 5 megawatt. Despite considerable cuts compared to the predecessor programme, the subsidy conditions were still attractive, at least in certain sub-segments. Given the comparatively high electricity rates for consumers, it can be expected that more and more photovoltaic power systems will become competitive without state subsidies in Italy.

In January, the Spanish Finance Ministry imposed an indefinite moratorium on subsidies for electricity from renewable sources according to the Directives RD661/2007 and RD1578/2008. Thus, the former subsidisation of photovoltaic power systems was suspended. As a result, those projects with a total capacity of more than 600 MWp for which permits had been pending were not installed. The market for new photovoltaic installations came to a complete halt. Market opportunities are seen for large-scale photovoltaic systems that are competitive without state-subsidised feed-in rates. In addition, the photovoltaic industry is still waiting for the implementation of the long-ago announced rules for self-consumption systems (“net metering”).

In the United States, the photovoltaic market increased to about 3.3 GWp in 2012, as compared to 1.9 GWp in 2011. On 11 December 2012, the U.S. solar industry association SEIA estimated that new installed capacity of 1.2 GWp was added in the fourth quarter alone, mostly in the segment of large-scale photovoltaic systems. There is no nationwide subsidy programme in the United States. Large-scale plants are financed primarily by means of individual power purchasing contracts with energy utilities or large-scale consumers. According to the SEIA, however, it will become increasingly difficult to find electricity buyers in the future. Therefore, this segment is expected to generate slower growth, starting from around 2015. On the other hand, growth opportunities are seen on the market for operation and maintenance of large-scale photovoltaic systems.

The growth of Asian photovoltaic markets is supported mainly by rising energy consumption and measures aimed at securing reliable power supplies. Some Asian countries such as India, Japan, Thailand and Malaysia, for example, have implemented subsidy programs for photovoltaic power generation.

The development of the photovoltaic market in India has been somewhat hampered by a lack of attractive financing alternatives. Nonetheless, it appears that installed capacity rose to more than 1 GWp in 2012. The Indian market still offers great medium-term potential, due to frequent power outages and high

electricity rates for industrial users. The market research firm GTM Research is predicting total installed capacity of 9 GWp in the year 2016. The Indian government plans to initiate the second phase of the national subsidy programme National Solar Mission in the middle of 2013.

In its search for alternatives to nuclear energy, the Japanese government modified its subsidy programme for photovoltaic energy and introduced a feed-in rate system modelled after the German system. The new programme will subsidise photovoltaic systems mounted on residential properties with a feed-in rate of 42 Japanese yen, which was equivalent to roughly EUR 0.37 as of 31 December 2012, for 10 years. In addition, the previous maximum limit of 500 kWp was abolished. Such photovoltaic power systems will also be granted a feed-in rate of 42 yen over a period of 20 years. The new Japanese programme, which took effect on 1 July 2012, is one of the most attractive subsidy systems in the world. Thanks to additional economic stimulus programmes, favourable financing is easy to obtain.

The Malaysian government initiated the process of enacting a new renewable energy law in May 2011. By the year 2015, 5 percent of the country's electricity is supposed to be generated from renewable sources. In Singapore, where Phoenix Solar maintains a subsidiary that also serves other Asian countries and regions, the economic efficiency of photovoltaic systems has already reached the level of wholesale prices.

1.4.3 PROCUREMENT MARKETS

The procurement market was dominated by the unabated decline in photovoltaic module prices in 2012. As in 2011, this decline primarily affected crystalline modules. Because the crystalline production chain (polysilicon, ingots, wafers and cells) involves a considerably higher proportion of variable costs than thin-film technology, the prices of crystalline modules fell to a level below that of thin-film modules. Consequently, thin-film modules have become progressively less competitive.

As in 2011, the unrelenting price erosion in 2012 was caused by high manufacturing capacities (roughly 40 to 50 GWp). Although stable in Germany, the demand for photovoltaic systems virtually collapsed in Italy.

Consequently, large stocks of Chinese modules piled up in European ports and some of them were offered at very aggressive prices. Because the prices offered by Chinese manufacturers are below production cost in some cases, European manufacturers have come under increasing pressure.

Amid this market environment, the Phoenix Solar Group substantially reduced the percentage of its portfolio consisting of thin-film modules. Making use of long-established supplier relationships, Phoenix Solar managed to adjust the supply contracts for crystalline modules to reflect the new market environment. Thanks to improved planning figures, Phoenix Solar kept stocks in storage with suppliers in Europe and called off required quantities as needed. By taking delivery of stocks only when needed, the company avoided larger inventory writedowns during the year and maintained appropriately small inventories at the end of the year.

As a result of the discontinuation of trading and project activities managed from Germany, the dominant role formerly played by centralised procurement and logistics will be replaced with a decentralised organisation, under which the subsidiaries will assume responsibility for optimising procurement, storage and delivery, as some of them have done already.

1.4.4 IMPORTANT EVENTS IN THE FINANCIAL YEAR 2012

Changes in the executive board and supervisory board Effective 31 January 2012, the Chief Sales Officer of Phoenix Solar AG, Ulrich Reidenbach, resigned from the company to pursue new opportunities. His responsibilities were assumed by the Chief Executive Officer Dr. Andreas Hänel.

Until 27 June 2012, the Supervisory Board was composed of six members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle, Dr. Patrick Schweisthal, Prof. Dr. Thomas Zinser, Oliver Gosemann and Dr. Torsten Hass. As of 28 June 2012, the Supervisory Board is composed of three members: J. Michael Fischl (Chairman), Oliver Gosemann and Prof. Dr. Thomas Zinser.

Write-up and write-down of project rights for the solar farm in Kazanlak (Bulgaria) The solar farm erected for Bosch Solar Energy AG in Kazanlak (Bulgaria) was completed on schedule. However, the Bulgarian authorities delayed issuance of an operating permit until 2 July 2012, too late for the feed-in rate in effect until 30 June 2012 to be applicable; instead, the new feed-in rate in effect as of 1 July 2012, which is about 50 percent lower than the previous feed-in rate, was applicable. Based on the contractual clauses governing the construction of the solar farm, Phoenix Solar was therefore forced, among other things, to charge a write-down on the project rights for Kazanlak, of an amount in the higher single-digit millions, in the second quarter. The value of these project rights had initially been written up in the first quarter, in consideration of the expected developments with respect to completing the project and securing the feed-in rates.

Large-scale project for the Phoenix Solar subsidiary in the United States In the second half of 2012, the Phoenix Solar subsidiary in the United States successfully completed and commissioned its first large-scale project, a 9.5 MWp plant for the Volkswagen factory in Chattanooga, Tennessee.

New financing facility and implementation of the restructuring program On 11 May 2012, Phoenix Solar entered into a new financing facility consisting of cash lines and guarantee lines, for a total volume of EUR 132 million. The most important component was a syndicated loan agreement with a term until 31 March 2014. Based on the business plans in effect, the financing facility covered the company's financing needs completely. To ensure the realisation of the planned business performance and on-going compliance with the standard covenants contained in the agreement, Phoenix Solar continued systematically to implement the already initiated restructuring program, large parts of which were already completed by the end of the first half of 2012.

The following were key elements of the restructuring program:

- Reduction of personal expenses and other operating expenses by nearly 50 percent, or approximately EUR 30 million, compared to 2011. In this connection, the reduction in the company's global workforce to 230 (31 December 2011: 409) employees was nearly completed by the end of the third quarter. The cost targets for 2012 were surpassed, which helped to offset the earnings variances that resulted from the non-attainment of revenue targets.
- The complete re-engineering of structures and processes with the goal of achieving substantial efficiency gains was completed by 30 September 2012.
- The re-design of supply chain processes and supplier management with the goal of establishing greater flexibility with respect to quantities and prices, so as to largely avoid devaluation risks. As an important part of this measure, a long-term supply contract was cancelled by mutual agreement with the supplier already in the first half, so that Phoenix Solar is no longer bound by firm purchasing commitments.
- The improvement of control mechanisms in the management of subsidiaries, as well as project management and cost management, was completed in the first half of 2012.
- The continued pursuit of the internationalisation and growth strategy, which is focused on the United States and Asia, and the implementation of focused measures to expand the international business.
- The target costing sub-project, the goal of which was to reduce the system costs of power plant projects by around 20 percent from the level at year-end 2011, has been completed and the targets were surpassed.

Changes in the consolidation group The Phoenix Solar Group withdrew from the Australian solar market in 2012. The subsidiary in Australia was closed as planned in the first quarter of 2012. Further information on changes to the group of project companies is provided in Note 5 of the notes to the consolidated financial statements.

1.4.5 COMPARISON OF FORECASTED WITH ACTUAL BUSINESS PERFORMANCE

In the ad-hoc announcement of the company's 2012 budget figures on 11 May 2012, the Executive Board of Phoenix Solar AG projected that its revenues for 2012 would lie between EUR 210 and EUR 240 million and would therefore be 38 percent to 47 percent lower than the comparison figure for 2011. In the same announcement, the company stated that EBIT would lie between EUR – 25 and EUR – 19 million, reflecting an improvement of between EUR 60 and EUR 66 million compared to the prior-year figure.

In the second half of 2012, Phoenix Solar AG had to contend with substantially lower demand and continued strong pressure on prices and profit margins, particularly in Germany. Consequently, the company experienced sharp revenue declines in both operating segments of Components & Systems and Power Plants. Therefore, Phoenix Solar published an ad-hoc announcement on 23 October 2012, in which it stated that revenues for 2012 were now expected to lie between EUR 150 and EUR 170 million. However, the company re-affirmed its earnings forecast, insofar as the anticipated loss before interest and taxes (EBIT) of between EUR 19 and EUR 25 million would be much lower than the corresponding loss for 2011, as announced.

As it later became clear that the business of both segments in Germany was not recovering, the Executive Board resolved after the close of the financial year to discontinue these business activities and to focus the company's business even more on high-growth regions in the United States and Asia. In an ad-hoc announcement on 11 February 2013, it was announced that Phoenix Solar would discontinue the loss-making trading and project activities in Germany in 2013. The reorganisation necessitated extraordinary expenses in the form of impairment losses and provisions totalling about EUR 7.9 million, which placed an additional burden on the company's earnings in 2012. Excluding these extraordinary expenses, the earnings forecasts published in October would have been achieved in full. Including them, the company posted an EBIT of approximately EUR – 31.8 million in 2012. The reported revenues of EUR 157.8 million were squarely within the forecast range of EUR 150 to EUR 170 million.

1.4.6 DEVELOPMENT OF THE SHARE PRICE

Detailed information on the stock market environment, the performance of Phoenix Solar's share, our investor relations activities and key indicators and master data on the share of Phoenix Solar AG can be found in the section "The Phoenix Solar Share" (Phönix SOLAR SHARE®) of the present Annual Report.

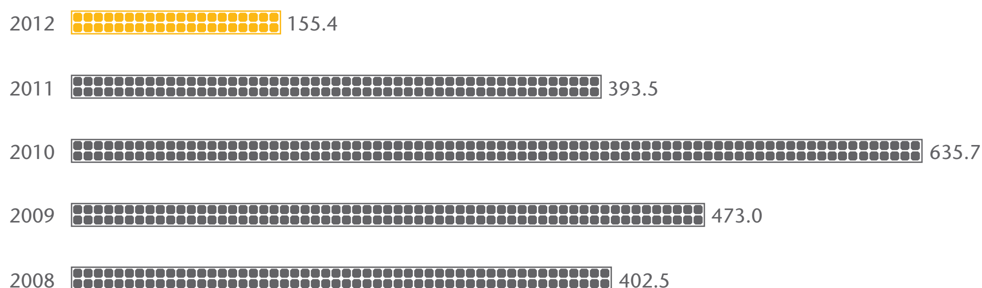
2 RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION

2.1 RESULTS OF OPERATIONS

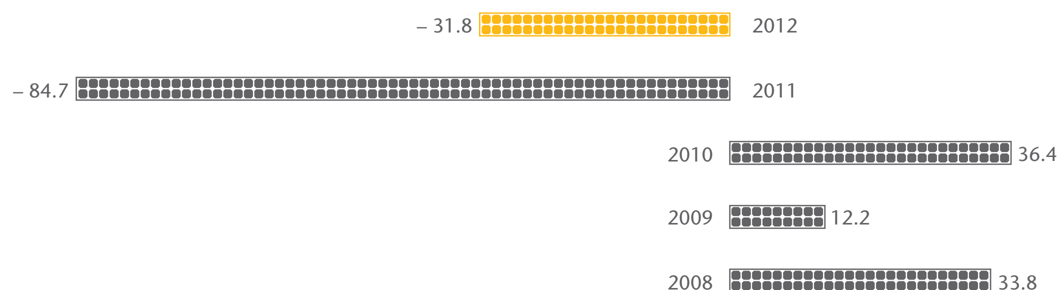
Market conditions in the photovoltaic industry remained difficult in 2012. Furthermore, the business activity of Phoenix Solar AG was burdened by the negotiations concerning a new financing package, which lasted into May 2012. Due to factors such as the persistent reluctance to invest in euro zone countries, the considerable uncertainties in the regulatory environment for the solar industry and the Group's unsuccessful attempt to enter the Indian market, Phoenix Solar AG was forced to issue a downward correction of its revenue forecast for 2012 on 23 October 2012. Thanks to the successful progress of the restructuring programme, however, the EBIT forecast was reaffirmed.

Because the market environment for some business lines could not be expected to undergo a quick recovery in the near future, the company announced on 11 February 2013 that it will discontinue its loss-making activities, particularly including the trading and project business managed from Germany. As a result of this new business strategy, the company's 2012 earnings were burdened by non-recurring expenses, particularly in the form of impairment losses and provisions, leading to a negative operating result (EBIT) of approximately EUR 31.8 million. Excluding these non-recurring charges, the EBIT forecast for 2012 would have been achieved in full.

Revenues 2008-2012 in € mn



EBIT 2008-2012 in k€



2.1.1 ANALYSIS OF REVENUES

Due to the difficult market environment, the revenues of both the company's two operating segments in financial year 2012 were less than the respective prior-year revenues. The declines from the respective year-ago figures were especially pronounced in the second half of the year.

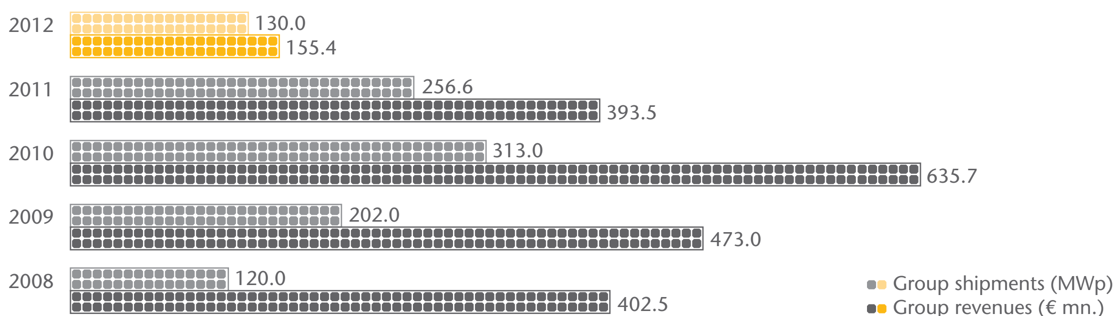
Phoenix Solar AG generated revenues of EUR 155.4 million in financial year 2012, reflecting a 60.5 percent decrease from the prior-year figure (2011: EUR 393.5 million). The revenues generated in Germany were more than 70 percent less than the corresponding figure for 2011.

Of the Group's total revenues, 29.9 percent (2011: 42.8 percent) were generated in Germany and 70.1 percent (2011: 57.2 percent) were generated in the Group's international markets. The Components & Systems segment accounted for 46.6 percent (2011: 61.2 percent) and the Power Plants segment accounted for 53.4 percent (2011: 38.8 percent) of the Group's total revenues in the financial year 2012.

Development of Revenues by Segment and Region 2008-2012

		2012	2011	2010	2009	2008
Consolidated revenues	€ mn	155.4	393.5	635.7	473.0	402.5
Change from prior year	%	– 60.5	– 38.1	34.4	17.5	54.7
C and S revenues	€ mn	72.4	241.0	368.5	299.0	214.6
Change from prior year	%	– 70.0	– 34.6	23.2	39.3	64.2
PP revenues	€ mn	83.0	152.5	267.2	174.0	187.8
Change from prior year	%	– 45.6	– 44.8	58.7	– 7.3	45.2
Other revenues	€ mn	0.0	0.0	0.0	0.0	0.1
Domestic revenues	€ mn	46.4	168.5	471.2	445.3	242.8
Change from prior year	%	– 72.5	– 64.2	5.8	83.4	28.1
EU revenues, excl. Germany	€ mn	69.8	187.9	162.3	22.8	157.6
Change from prior year	%	– 62.9	15.8	611.8	– 85.5	123.9
RoW revenues	€ mn	39.2	37.1	2.2	4.9	2.1
Change from prior year	%	5.7	1.586.4	– 55.1	133.3	950.0

Revenues and shipments 2008-2012 in € mn



2.1.2 EARNINGS

Given the nearly 60 percent drop in revenues, it would have been impossible to generate a positive operating result in 2012, but this had also not been planned. In addition, the Group's earnings performance was influenced by various adjustments and non-recurring effects related to the restructuring programme and the new financing package. Thus, the primary goal was to adapt the cost position to the lower business volume as quickly as possible; and this goal was achieved by the rigorous implementation of the restructuring programme. In fact, the cost reduction efforts actually proceeded somewhat better than planned, so that a considerable portion of the lost profit contributions caused by the divergence between actual and budgeted revenues was made up by cost reductions. Another goal of the restructuring programme

was to avoid the substantial inventory write-downs of the kind that occurred in the financial year 2011, by means of a modified procurement and inventory policy. Despite the further progression of price erosion, particularly for modules, this goal was achieved, although new write-downs could not be completely avoided. The Group's earnings performance was also weighed down by additional impairment losses and provisions in the amount of roughly EUR 7.9 million (approximately EUR 3.3 million of impairments of intangible assets and other noncurrent assets, approximately EUR 2.2 million of provisions for anticipated losses and approximately EUR 2.4 million in write-downs due to the discontinuation of product lines), all of which necessitated by the new strategic direction adopted shortly after the close of the financial year 2012. As a result of all these factors, consolidated EBIT amounted to EUR – 31.8 million (2011: EUR – 84.7 million) and the consolidated profit/loss amounted to EUR – 37.6 million (2011: EUR – 86.4 million). Although these figures represent a considerable improvement over the respective prior-year figures, they clearly constitute only a small step in the direction of restoring the Group's profitability.

2.1.3 SITUATION OF ORDERS

As of 31 December 2012, orders on hand amounted to EUR 83.5 million (31 December 2011: EUR 119.4 million), reflecting a decrease of EUR 35.9 million or 30.1 percent from the prior-year comparison figure. The orders of the Components & Systems segment rose by EUR 21.8 million to EUR 35.8 million (31 December 2011: EUR 14.0 million). This increase resulted mainly from a large-scale order received in Singapore. The orders of the Power Plants segment fell by 57.8 percent to EUR 47.7 million (31 December 2011: EUR 105.5 million). Additional information on the order situation of the operating segments is presented in Section 2.1.5.

2.1.4 DEVELOPMENT OF KEY ITEMS OF THE INCOME STATEMENT

Changes in inventory The line item of changes in inventory in the amount of EUR 3.3 million (2011: EUR 10.9 million) reflects the increases and decreases in work in progress on orders. In financial year 2012, this item was influenced mainly by the construction progress of roof-top projects in France.

Other operating income Other operating income in the amount of EUR 7.8 million (2011: EUR 9.4 million) included electricity income from photovoltaic plants held by the company, in the amount of approximately EUR 2.4 million. In the financial year 2012, this item was also composed primarily of income from the reversal of accruals for liabilities under outstanding invoices (EUR 1.5 million), income from the reduction of value adjustments (EUR 1.2 million) and income from the reversal of unneeded litigation provisions (EUR 0.6 million).

Purchased goods and services/gross profit The cost of purchased goods and services amounted to EUR 146.2 million, reflecting a decrease of EUR 284.7 million or EUR 66.1 percent from the prior-year figure (2011: EUR 430.9 million), mainly due to the lower business volume. Thanks to the measures aimed at optimising procurement and inventory management policies, the cost of purchased goods and services declined by a greater percentage than revenues. Despite these measures, however, some write-downs still had to be charged to assure the loss-free valuation of inventories. These write-downs totalled EUR 9.2 million (2011: EUR 35.5 million). This figure included a charge of EUR 2.4 million for product discontinuation costs.

In 2011, the gross profit had been weighed down by the high level of inventory write-downs and by the impairment of the Kazanlak project rights. In financial year 2012, the amount of write-downs was reduced considerably, thanks to changed inventory management and procurement policies. In addition, the Group's activities in the United States and Greece generated positive effects on the gross profit. Phoenix Solar generated a total operating performance of EUR 158.7 million (2011: EUR 404.3 million) and a positive gross profit of EUR 12.6 million, reflecting a gross profit margin of 7.9 percent (2011: EUR – 26.6 million, – 6.6 percent).

Personnel expenses As of 31 December 2012, the Phoenix Solar Group had 228 employees (excluding Executive Board members, but including casual labourers; 2011: 409), of whom 215 were permanent employees (31 December 2011: 384). Compared to 31 December 2011, this number reflects a reduction of 181 employees, whereas the workforce as of 31 December 2011 was higher than the respective prior-year figure by 58 employees. Due to the lower number of employees, the personnel expenses of EUR 21.1 million were 29.7 percent less than the corresponding prior-year figure (2011: EUR 30.0 million). In relation to the likewise substantially lower revenues, the key indicator of revenues per full-time employee was reduced from EUR 982 thousand in 2011 to EUR 609 thousand in 2012, despite the workforce reduction. Expenses of approximately kEUR 521 were incurred in connection with the reduction of the parent company's workforce.

Depreciation, amortisation and impairments At EUR 6.0 million, the depreciation, amortisation and impairments recognised in respect of intangible assets and property, plant and equipment were EUR 4.4 million higher than the prior-year figure (2011: EUR 1.6 million). This increase resulted primarily from impairments of the ERP system (EUR 2.0 million) and other items of property, plant and equipment (EUR 1.3 million) associated with the discontinuation of the trading and project business in Germany.

Other operating expenses The other operating expenses of EUR 25.2 million were EUR 10.7 million or 30.0 percent less than the prior-year figure (2011: EUR 35.9 million).

The parent company achieved material cost reductions compared to the prior year, particularly in the categories of legal counsel expenses (EUR - 2.0 million), miscellaneous other expenses (EUR - 0.8 million), sales commissions (EUR - 0.7 million) and fees, contributions and duties (EUR - 0.4 million). Appropriations to individual value adjustments were reduced by EUR 1.1 million compared to the corresponding figure in financial year 2011, which was influenced by non-recurring effects emanating from individual value adjustments to claims based on complaints. Expenses for other value adjustments were about EUR 0.6 million lower than the corresponding prior-year figure, due to the receipt of compensation payments from a supplier. On the other hand, consulting expenses were about EUR 2.5 million higher than the corresponding figure for 2011; these expenses were incurred particularly in connection with the restructuring programme.

At approximately EUR 1.3 million, the parent company's outbound freight expenses were considerably lower than the prior-year figure of roughly EUR 3.2 million.

Result from associated companies Phoenix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a 31.2 percent equity interest, has been accounted for at equity as an associated company since financial year 2009. The share of this company's profit that is attributable to the Phoenix Solar Group in financial year 2012 amounted to kEUR 49.5 (2011: kEUR 28.1).

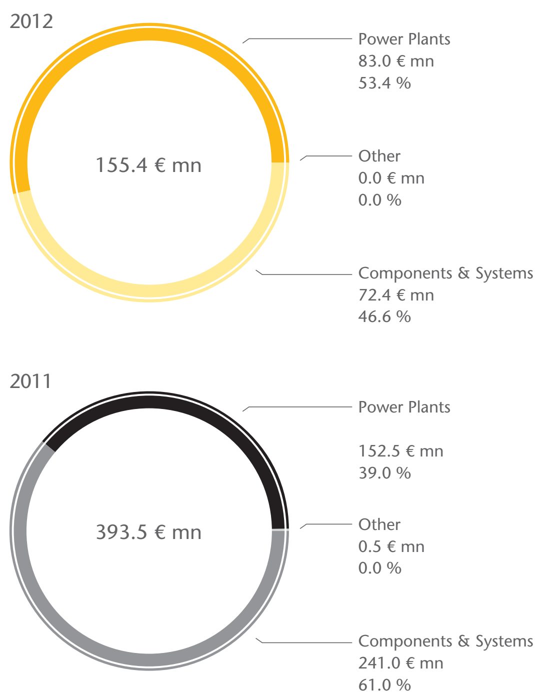
Earnings before interest and taxes (EBIT) Despite the positive gross profit and the cost reductions achieved in connection with the restructuring programme, the reduced revenues were not nearly enough to earn a positive EBIT. In 2012, the earnings before interest and taxes amounted to EUR - 31.8 million (2011: EUR - 84.7 million). Calculated as a percentage of total revenues, the EBIT margin came to - 20.5 percent (2011: - 21.5 percent).

Financial result The financial result of EUR - 5.5 million was EUR 1.3 million worse than the prior-year figure (2011: EUR - 4.2 million). Financial income amounted to EUR 0.2 million (2011: EUR 0.4 million) and financial expenses amounted to EUR 5.7 million (2011: EUR 4.6 million). Of the financial expenses, EUR 2.0 million (2011: EUR 2.8 million) consisted of interest expenses for current liabilities and approximately EUR 2.0 million consisted of costs for the syndicated loan facility (closing costs, on-going fees, etc.). Expenses for guarantee fees amounted to EUR 1.2 million (2011: EUR 0.8 million).

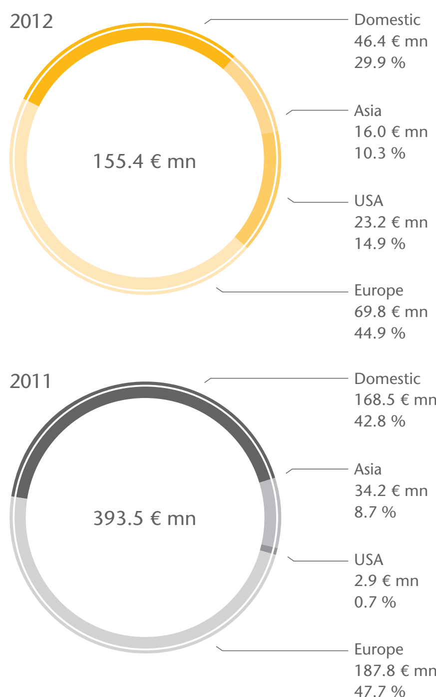
Tax rate In the period from January to December 2012, the Group's tax rate, defined as the ratio of tax expenses to the consolidated profit before taxes, came to - 0.8 percent (2011: 2.8 percent). The change from the prior year resulted mainly from the recognition of deferred tax assets in respect of tax loss carry-forwards of the U.S. subsidiary, in the amount of EUR 1.6 million (2011: EUR 0.7 million). These deferred tax assets were recognised on the basis of the expectation that the U.S. subsidiary will be able to apply the tax loss carry-forwards against taxable income in the next two years, given the positive results in 2012 and the anticipated future business performance.

Consolidated profit/loss By reason of the developments described above, the Phoenix Solar Group generated a net loss of EUR – 37.6 million in 2012 (2011: EUR – 86.4 million). Based on average shares outstanding of approximately 7.4 million, the basic earnings per share came to EUR – 5.10 EUR (2011: EUR – 11.80 EUR). Given the absence of any material diluting effects as of 31 December 2012, the diluted earnings per share are only slightly different from the basic earnings per share.

Revenues by segments



Revenues by region



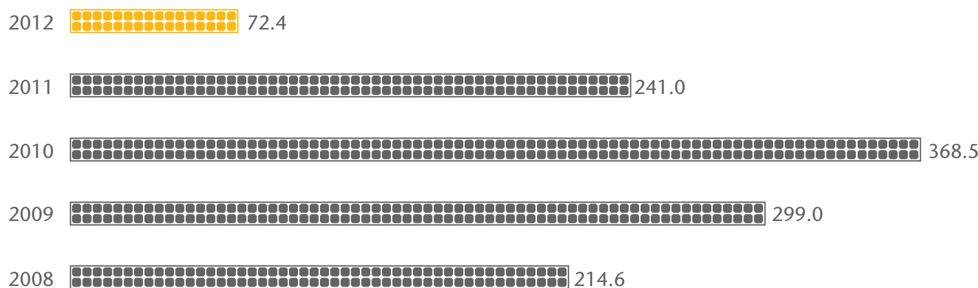
2.1.5 DEVELOPMENT OF THE OPERATING SEGMENTS

Components & systems (domestic and international) As in the prior year, the performance of the C&S segment in 2012 was particularly influenced by the situation of heightened competition and by the uncertainties surrounding the further subsidy possibilities and the general economic expectations, especially in Europe. As a result of these factors, weak demand persisted in Europe and prices eroded further, accompanied by shrinking profit margins. Furthermore, the Group was not able to generate the planned revenues in India.

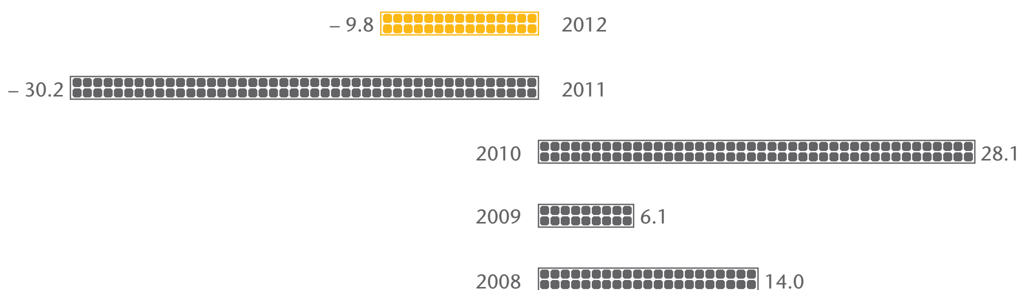
Amid this still demanding market environment, the revenues of the Components & Systems segment declined again substantially in 2012, by around 70 percent to EUR 72.4 million (2011: EUR 241.0 million). EUR 38.0 million (2011: EUR 154.3 million) of total revenues were generated in Germany and EUR 34.4 million (2011: EUR 86.7 million) were generated in international markets.

The renewed sharp drop in revenues made it impossible for the C&S segment to generate a positive EBIT. As of 31 December 2012, the segment's orders on hand amounted to roughly EUR 35.8 million (31 December 2011: EUR 14.0 million). This figure includes a large-scale order of the subsidiary in Singapore, which is attributed to the C&S segment by reason of the contractual basis. Of the total orders, EUR 1.4 million (31 December 2011: EUR 1.3 million) consisted of domestic orders and EUR 34.4 million (31 December 2011: EUR 12.7 million) consisted of international orders.

Revenues components & systems 2008-2012 in € mn



EBIT components & systems 2008-2012 in € mn



Power plants (domestic and international) As in the prior year, the development of the Power Plants segment was mainly influenced by international activities in financial year 2012. Phoenix Solar completed two projects in France (among others) that had been acquired in financial year 2011, for a total volume of 24 MWp. In addition, various small projects were executed in Greece.

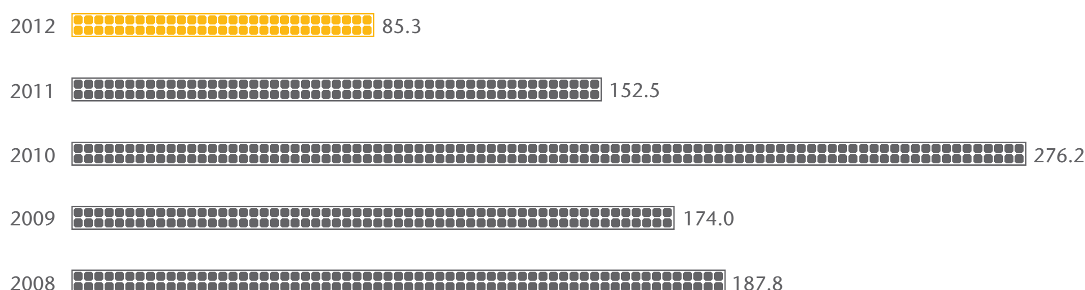
By contrast, the development of the Kazanlak project (Bulgaria) was unsatisfactory. Under the agreement with Bosch Solar Energy AG, Phoenix Solar AG was obligated to complete 25 MWp of the originally planned 50 MWp solar power farm in Kazanlak and secure the feed-in rates in effect until 30 June 2012 for the project. The ACT 16 inspection process conducted on 26 June 2012 confirmed the completion of the 25 MWp. Therefore, Phoenix Solar fulfilled the conditions for obtaining an operating permit for the solar park, as the prerequisite for securing the feed-rates in effect until 30 June 2012. Contrary to our expectations, however, the Bulgarian authorities made full use of the discretionary time allowed for them to issue an operating permit, which they issued only on 2 July 2012. As a result, the feed-in tariff in effect until 30 June 2012 was not applied; instead, the roughly 50 percent lower feed-in rate in effect as of 1 July 2012 was applied. By virtue of the contractual agreements governing the construction of the solar power farm, it was necessary, among other things, to write down the value of the Kazanlak project rights in the second quarter, after having written them up in the first quarter on the basis of a positive completion forecast for the project. Despite the completion of the solar power farm, the failure to secure the planned feed-in rate resulted in a non-recurring negative effect of an amount in the higher single-digit millions in the second quarter of 2012.

In non-European markets, the projects begun in 2011 in Thailand (for a total of 15.9 MWp) and Saudi Arabia (3.5 MWp) were successfully completed in 2012. In addition, the Phoenix Solar subsidiary in the United States successfully completed its first large-scale project, for roughly 9.5 MWp.

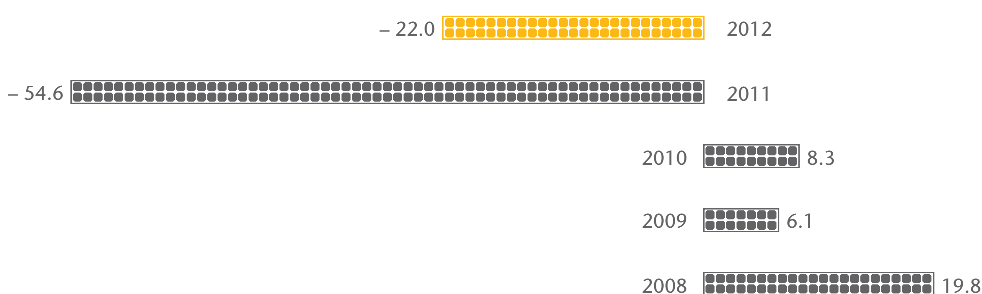
In total, however, the revenues of the Power Plants segment fell by 45.6 percent to EUR 83.0 million in the financial year 2012 (2011: EUR 152.5 million). Domestic projects accounted for EUR 8.4 million (2011: EUR 14.2 million) and international projects accounted for EUR 74.6 million (2011: EUR 138.3 Mio.) of total segment revenues. The Power Plants segment was also unable to generate positive earnings in 2012.

As of 31 December 2012, the orders on hand of the Power Plants segment (including orders in progress) amounted to EUR 47.7 million (31 December 2011: EUR 105.4 million). The orders on hand as of year-end 2011 consisted entirely of international orders, whereas the corresponding figure as of 31 December 2012 consisted of international orders in the amount of EUR 41.4 million and domestic orders in the amount of EUR 6.3 million. Adjusted for revenues recognised in respect of power plant projects in progress, net orders on hand amounted to roughly EUR 18.4 million as of 31 December 2012 (31 December 2011: EUR 29.9 million), reflecting a 38.4 percent decrease from the corresponding figure in the financial year 2011.

Revenues Power Plants 2008-2012 in € mn



EBIT power plants 2008-2012 in € mn



2.2 CASH FLOWS

2.2.1 BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

The financial policy and financial management system of the Phoenix Solar Group were aligned with the on-going restructuring of the company in 2012. Key elements included tighter liquidity management and the rigorous implementation of the liquidity-conserving and liquidity-generating measures resolved in connection with the restructuring concept, including (for example) the further reduction of inventories. In addition, Phoenix Solar closely monitored and carefully managed all cost positions.

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

At EUR 8.9 million, the cash and cash equivalents of the Phoenix Solar Group were EUR 2.5 million higher than the prior-year figure (31 December 2011: EUR 6.4 million). Current financial liabilities rose by EUR 14.8 million to EUR 39.5 million (31 December 2011: EUR 24.7 million).

2.2.3 CASH FLOW FROM OPERATING ACTIVITIES

The cash outflow from operating activities amounted to EUR 9.2 million in 2012 (2011: cash inflow EUR 29.8 million). The effect of the further reduction of inventories in financial year 2012 (EUR + 20.8 million, adjusted for the reclassification of project companies from inventories to noncurrent assets) was not sufficient to offset the negative result. In addition, further outflows of EUR 5.7 million resulted from tax payments on the basis of a tax audit. The cash inflows from changes in receivables under long-term construction contracts (EUR + 14.3 million) and from changes in trade receivables (EUR + 3.8 million) were considerably higher than the cash outflow from changes in liabilities (EUR – 15.3 million).

2.2.4 CASH FLOW FROM INVESTING ACTIVITIES

At EUR 0.3 million, the cash outflow for investing activities was considerably lower than the corresponding year-ago figure (2011: EUR 2.8 million). New acquisitions were largely avoided as part of the restructuring plan.

2.2.5 CASH FLOW FROM FINANCING ACTIVITIES

The cash inflow from financing activities amounted to EUR 11.9 million in 2012 (2011: EUR – 30.2 million). This amount represents the net balance of the cash outflow for fees and commissions for the syndicated loan agreement, in the amount of approximately EUR 3.0 million, and the cash inflow from the borrowing of financial liabilities, in the amount of EUR 14.7 million. This figure also included the cash inflow from interest collected, in the amount of EUR 0.2 million.

2.2.6 CAPITAL EXPENDITURES, DEPRECIATION AND AMORTISATION

Information on the changes in noncurrent assets is presented in Section D of the notes to the consolidated financial statements and in the Consolidated Statement of Changes in Noncurrent Assets contained therein (see Note 15).

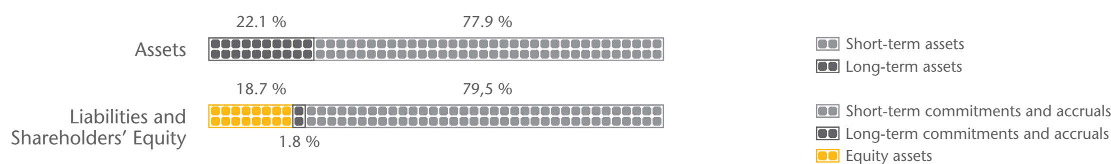
2.3 FINANCIAL POSITION

All figures in euro millions	31/12/2012	31/12/2011
Assets	**92.7**	**143.9**
Noncurrent assets	20.5	12.3
thereof deferred tax assets	2.1	2.2
Current assets	72.2	131.6
thereof inventories	11.6	55.9
thereof receivables under long-term construction contracts	0.7	15.0
thereof trade receivables	26.2	31.6
Equity and liabilities	**92.7**	**143.9**
Equity	17.3	54.8
Noncurrent liabilities and provisions	1.7	2.5
thereof deferred tax liabilities	0.0	0.0
Current liabilities and provisions	73.7	86.6
thereof trade payables	17.8	24.5
thereof current financial liabilities	39.5	24.7

2.3.1 STRUCTURE OF ASSETS AND CAPITAL

As of 31 December 2012, the total assets of the Phoenix Solar Group amounted to EUR 92.7 million (31 December 2011: EUR 143.9 million), reflecting a decrease of about 36 percent from the corresponding figure at year-end 2011.

Balance structure 31/12/2012



On the assets side, this decrease resulted mainly from the EUR 44.3 million reduction of inventories, which fell to EUR 11.6 million. The reduction of inventories includes a non-recurring effect of EUR 14.2 million resulting from the reclassification from inventories to noncurrent assets of photovoltaic plants which the company had originally intended to sell. In addition, receivables under long-term construction contracts declined by EUR 14.3 million to EUR 0.7 million (31 December 2011: EUR 15.0 million), while trade receivables declined by EUR 5.4 million to EUR 26.2 million (31 December 2011: EUR 31.6 million).

As a result of the consolidated net loss, the Group's equity fell by EUR 37.5 million to EUR 17.3 million (31 December 2011: EUR 54.8 million). Accordingly, the equity ratio as of 31 December 2012 came to EUR 18.7 percent (31 December 2011: 38.1 percent).

The Group's debt capital amounted to EUR 75.4 million, reflecting a decrease of EUR 13.6 million from the prior-year figure (31 December 2011: EUR 89.1 million). This decrease resulted primarily from the reduction in other non-financial liabilities, which fell by EUR 8.2 million to EUR 5.6 million (31 December 2011: EUR 13.8 million), from the reduction in current tax liabilities, which fell by EUR 7.4 million to EUR 0.5 million (31 December 2011: EUR 7.9 million), and from the reduction in trade payables, which fell by EUR 6.7 million to EUR 17.8 million (31 December 2011: EUR 24.5 million). Current provisions were reduced by approximately EUR 5.0 million to EUR 4.9 million (31 December 2011: EUR 9.9 million). The main countervailing development was the EUR 14.8 million increase in current financial liabilities, which rose to EUR 39.5 million (31 December 2011: EUR 24.7 million).

2.3.3 NOTES ON COMPANY ACQUISITIONS

No company acquisitions were effected in financial year 2012.

3 EMPLOYEES

During the course of financial year 2012, the workforce of Phoenix Solar AG and the Group (excluding Executive Board members, but including casual labourers) was reduced from 492 to 228 employees. The precarious financing situation in the fourth quarter of 2011 made it necessary to quickly devise a comprehensive restructuring programme, under which we were also forced to part with many experienced, well qualified employees. In order to carry out this process in the most transparent and fair manner possible, we decided to offer employment termination agreements, so as to avoid outright lay-offs.

As a result of both the internationalisation of our business and the restructuring of our operations in Germany, the percentage of the Group's total employees working in our international subsidiaries increased substantially during the course of the year. As of 31 December 2012, 29 percent of all our employees worked in our subsidiaries (PY: 20.3 percent).

In the financial year 2012, the Group had employees from more than 20 nations, from all age groups and from a wide range of different backgrounds. As of 31 December 2012, women accounted for 32 percent of employees in Germany and more than 14 percent of managerial positions in Germany were filled by women.

At year-end 2012, Phoenix Solar AG had six vocational trainees learning different occupations. Besides providing vocational training to young people, Phoenix Solar places a high priority on the career development and continuing education of all its employees. Despite the restructuring situation, we again offered a diverse range of internal and external training courses, which were intensively utilised by our employees in 2012.

4 SUSTAINABILITY

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

In the following, we describe various measures that have been introduced and implemented at the German locations in past years and also in the financial year 2012. By reason of the reduced workforce of Phoenix Solar AG, it may not be possible to continue all of these measures in the future. Decisions in this respect will be made starting in the second quarter of 2013.

4.1 ENVIRONMENTAL PROTECTION

4.1.1 PRODUCTS, SERVICES AND SUPPLIER RELATIONSHIPS

Through the world, the Phoenix Solar Group distributes only products that contribute to climate protection and environmental protection. Photovoltaic systems generate electrical energy from sunlight. They are virtually silent and do not emit pollutants. Therefore photovoltaic systems are an important element of an energy mix that is geared to the reduction of CO_2 emissions. Solar power systems generate enough energy to compensate for the energy required to manufacture them in about three years of operation, depending on the module technology employed; after that they produce a positive energy footprint. Based on the current standard, photovoltaic plants can be expected to operate for more than 30 years.

In building large-scale photovoltaic power plants, the Phoenix Solar Group fulfils and monitors all nature protection and environmental protection requirements stipulated in the land-use plans.

Suppliers with which the company maintains long-term cooperation relationships are selected on the basis of criteria that go beyond product quality to also include the manufacturing process, working conditions and corporate governance. Nearly all the module manufacturers with which Phoenix Solar collaborates either participate in professional take-back programmes for photovoltaic modules (PV Cycle) or have instituted their own take-back programmes. These programmes guarantee the acceptance of used products even if the manufacturer would no longer be in business.

4.1.2 CERTIFIED PROCESSES

Already in 2009, the Power Plants segment of Phoenix Solar AG had 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 annual follow-up audits were conducted both by an internal auditor and an external auditor. The latest audit was conducted and the company’s certification was renewed in December 2012.

4.1.3 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 ff.) and the international standard for environmental management (DIN EN ISO 14000 ff.). The company’s environmental management system governs the organisational procedures, the detection of deficiencies, the initiation of corrective measures and the provision of necessary resources to improve and preserve the company’s environmental situation. The effectiveness of this system is continually monitored, adjusted and improved by means of periodic reviews.

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

4.1.4 ENERGY MANAGEMENT SYSTEM

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

4.1.5 MOTOR VEHICLE FLEET

The Group-wide motor vehicle fleet was subject to guidelines relative to cylinder capacity, fuel consumption and CO_2 emissions in the financial year 2012. Also in 2012, the environmental protection association Deutsche Umwelthilfe honoured Phoenix Solar with the "Green Card for Credible Climate Awareness," in recognition of its low CO_2 emissions. At 113 g CO_2/km, the average CO_2 emissions of the motor vehicle fleet used by our Executive Board are already less than the European Union target of 120 g CO_2/km, which takes effect in 2012. We added the first electric car to our fleet in December 2010. At our location in Sulzemoos, we set up an electric charging station for employees, guests and the company's own motor vehicle fleet.

4.1.6 OTHER PROGRAMMES

We still purchase electricity from a certified eco-power vendor for our German locations in Sulzemoos and Ulm. The buildings in Sulzemoos are heated by a wood chip-fuelled thermal power plant. We also take great pains to minimise our paper consumption and we are careful to purchase the paper we use for our print products only from paper manufacturers that carry the seal of the Forest Stewardship Council (FSC). By utilising the GOGREEN service of the German postal service Deutsche Post, Phoenix Solar AG mails all its letters in a CO_2-neutral manner. Many employees of Phoenix Solar AG either ride their bicycles to work or use public transportation or form car pools. We encourage our employees to take such steps, so as to make their contribution to a substantial reduction in CO2 emissions.

4.2 COMMITMENT TO SOCIAL RESPONSIBILITY

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

4.3 RATING

We did not apply for a sustainability rating in the financial year 2012.

5 GENERAL ASSESSMENT OF THE COMPANY'S ECONOMIC SITUATION

5.1 MANAGEMENT'S ASSESSMENT OF THE ECONOMIC SITUATION

Like the year before it, 2012 was a year of dramatic upheaval in many areas for Phoenix Solar AG. We had to implement comprehensive restructuring measures in order to secure the company's survival as a going concern and obtain a new financing package to last us through the year 2014. The company's business performance in the first half was heavily affected by these developments.

Unfortunately, the situation did not ease in the second half either. Even though we had obtained secure financing and implemented a considerable number of sales-related measures, we could not generate the planned revenues, largely as a result of market uncertainties, particularly related to the regulatory environment. Therefore, we had to make a significant downward adjustment to our revenue targets in October. Fortunately, the restructuring programme proceeded somewhat better than planned, despite the already deep cuts that had been made, so that the company's earnings performance was in line with budget expectations.

During the course of the fourth quarter, however, it became clear that even more dramatic steps would have to be taken to assure the company's continued operation. We responded to this challenge by developing a new business strategy, under which we will focus particularly on attractive markets in the United States and Asia, while consistently pulling out from loss-making business activities.

The fact that we obtained yet another new financing package for more than two years, through March 2015, on this basis demonstrates the trust and confidence that our financing partners have placed in the company and the new concept.

The Executive Board will focus all its attention on implementing the new restructuring measures, which should be completed by mid-2013. Aside from further substantial workforce reductions and downsizing, the new restructuring programme involves the development and implementation of new business models, primarily in Germany, which will be geared to market conditions and will not be dependent on subsidies under the German Renewable Energy Sources Act. Non-recurring expenses of approximately EUR 7.9 million were incurred for the necessary restructuring measures in 2012; these charges had not been included in the previous earnings forecast.

5.2 ESTIMATE-SENSITIVE ACCOUNTING METHODS

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

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

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

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

6 EVENTS AFTER THE REPORTING DATE

6.1 IMPORTANT EVENTS AFTER THE REPORTING DATE

On 11 February 2013, Phoenix Solar AG published an ad-hoc announcement stating its intention to focus on the international business and on developing new business models and to discontinue loss-making activities.

Such loss-making activities include the trading and project business managed from Germany, which will be discontinued in its current form. In addition to the trading and project activities of the international subsidiaries, Phoenix Solar will also continue to operate the profitable business of operating and maintaining solar power plants from its location in Ulm. We will also focus on developing new business models for project and trading activities.

As before, the Group's financing is assured by Phoenix Solar AG. We discussed and coordinated the new business strategy, the goal of which is to quickly return the company to a path of profitable growth, intensively with the financing banks. The company signed a contract modifying the previous loan agreement on 11 February 2013. The total financing volume was adjusted slightly lower, to about EUR 126 million. The term of the financing package was extended ahead of time by another year, from 31 March 2014 to 31 March 2015.

Also on 11 February 2013, Dr. Andreas Hänel, the founding Executive Board member of Phoenix Solar AG, resigned from his Executive Board position prior to the end of his term, effective 28 February 2013. The Supervisory Board of Phoenix Solar AG regretfully acknowledged his resignation. It thanked Dr. Hänel for his many years of successful service as the Chief Executive Officer, who brought Phoenix Solar AG into the TecDAX in 2008. Also during the difficult restructuring phase, Dr. Hänel led the company with impassioned dedication. He will continue to advise the company as needed. On the same date, the Supervisory Board appointed Dr. Bernd Köhler as the Chief Executive Officer, effective 1 March 2013. Dr. Köhler will also continue to perform the role of Chief Financial Officer. Dr. Murray Cameron will retain his position as Chief Operating Officer and CEO & President of the U.S. subsidiary.

6.2 EFFECTS OF THESE EVENTS ON THE COMPANY'S OPERATING RESULTS, CASH FLOWS AND FINANCIAL POSITION

As described above, these changes in the company's strategic orientation entailed non-recurring expenses, particularly in the form of impairment losses and provisions, in the amount of roughly EUR 7.9 million, which were recognised in the consolidated financial statements for 2012. Other non-recurring expenses related to these measures, in the amount of roughly EUR 2 million, will burden the company's results in the financial year 2013. On the other hand, the discontinuation of loss-making activities and the focus on the international business will lead to a substantial reduction in losses on the Group level.

7 REPORT ON OPPORTUNITIES AND RISKS

7.1 MANAGEMENT OF OPPORTUNITIES AND RISKS

7.1.1 RISK POLICY

As an internationally active company, the Phoenix Solar Group is exposed to a considerable number of risks. Therefore, our risk policy is 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. Because the achievement of commercial success necessarily entails opportunities and risks, the Group's risk strategy covers both elements. In the areas of our core competence, therefore, we assume manageable, assessable risks when the income to be generated by assuming such risks is appropriate. We avoid risks in all other areas, as a matter of principle, with no decision or action allowed to entail a risk that would endanger the company's survival as a going concern.

7.1.2 RISK AND OPPORTUNITY MANAGEMENT SYSTEM

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

A defined group of Risk Officers in key functions employ a standardised risk inventory list to report existing, newly detected and potential risks to the Risk Manager on a regular basis. Each such risk is classified according to the criteria "probability of occurrence" and "potential loss amount." In addition, the Risk Officers devise counter-measures to influence those two parameters in a positive way. The Risk Manager analyses, assesses and documents all such risks at regular intervals of time (usually on a monthly basis) and keeps the Risk Officers informed in the regular meetings of a Risk Committee. In these meetings, the Risk Officers review the risk assessments and adopt appropriate counter-measures. When the expected potential loss to result from any and all risks reaches a certain critical threshold, the Risk Officers also separately inform the Supervisory Board of the Group's current risk situation.

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

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

Phoenix Solar's internal control and risk management system with regard to the (consolidated) financial reporting process is designed to ensure that our accounting system is uniform and compliant with applicable laws and regulations, German generally accepted accounting principles 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, in conformity with all applicable laws, regulations and guidelines. This is achieved by means of various control and review mechanisms, including plausibility checks and the strict application of the dual control principle on all levels of the company. The function of the internal control system is to identify key risks and monitor the measures implemented to counter them. To this end, key elements such as process definitions, job descriptions and alternate representation arrangements are reviewed to verify that they are complete and up-to-date.

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

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

7.2 REPORT ON RISKS RELATED TO FINANCIAL INSTRUMENTS

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

7.3 OPPORTUNITIES

The greatest opportunities of the Phoenix Solar Group in the financial year 2013 will mainly result from the discontinuation of loss-making activities in Germany, which will substantially reduce the Group's risk position in the difficult German market. This will lead to a significant improvement in the earnings situation. In addition, Phoenix Solar AG will be able to focus completely on developing new business models that are not dependent on state subsidies and thereby generate new revenue and earnings opportunities for the future.

We will continue to implement our strategy of increased internationalisation in attractive international markets. In 2013, we will focus mainly on growth markets in the United States and Asia. That will reduce our dependence on uncertain economic expectations and on the uncertainties associated with subsidy programmes in Europe. In the U.S. business, particular opportunities will arise from the reference projects that have since been completed and from the considerable expertise of our employees in the areas of both project engineering and structured financing. The positioning so attained will enable us to develop new business relationships with additional investors and project developers. In Asia, we will meet the challenge posed by the large number of different individual markets with a dynamic, international team whose members have good contacts with regional and local industries. Also in Asia, the reference projects that have already been completed and the expertise of our employees will generate opportunities to raise our company's profile and expand our sales activities.

7.4 RISKS

7.4.1 EXTERNAL AND INDUSTRY RISKS

Political and regulatory factors The development of national photovoltaic markets in 2013 will be promoted or impeded to varying degrees by the laws and regulations in force. Long-term legislative degression models, as well as unannounced, sometimes radical changes in the legislative framework and interventions that damage confidence and fail to protect installed capacity reduce the attainable returns of new photovoltaic systems. The resulting uncertainty of investors and operators may cause markets to stagnate or even contract.

Phoenix Solar AG will seek to counter this risk by focusing on new business models that are no longer dependent on state subsidy models, and by focusing on fast-growing international markets that are already largely oriented to market conditions. There too, however, risks can arise from the political and regulatory environment.

In the Asian markets, we are confronted with a number of different subsidy systems and framework conditions. In some target countries, moreover, there is reason to doubt whether their governments will stick with the resolved subsidy programmes.

Also in the United States, there are important differences among the states concerning the importance attached to renewable energy sources and the regulatory treatment of such energy sources. To counter the risk of misallocation of resources, our U.S. subsidiary relies on a network of cooperation partners to identify suitable target markets.

Market, competition and external factors Competition and profit margin pressures are intensifying considerably in the shrinking European markets. On the one hand, the big, notoriously unprofitable manufacturers are attempting to expand their business into the segment of power plant construction; on the other hand, the overall number of suppliers has increased further, despite the difficult market environment. We will seek to counter these trends by focusing on fast-growing regions and by developing new business markets designed for shrinking markets and for markets that are not dependent on state subsidy programmes.

The liquidation of our inventories in Germany will substantially reduce the risk of higher devaluation losses by rapidly falling module prices.

7.4.2 RISKS OF THE COMPANY'S BUSINESS STRATEGY

Restructuring The rapid changes in the market environment, including the drastic erosion of prices for solar modules and systems even as unit sales volumes remain constant, have caused substantial declines in revenues and earnings. Furthermore, operators and investors are increasingly worried by the uncertainties surrounding the regulatory environment. Because neither unit prices nor demand can be expected to recover in the German market in the coming years, Phoenix Solar AG discontinued its loss-making activities in Germany at the start of 2013. In the future, Phoenix Solar's activities in Germany will be focused on developing new business models that are not dependent on state subsidy programmes. In cooperation with outside experts, the Executive Board conducted an in-depth review of this new strategy, the results of which confirmed its fundamental viability. The far-reaching restructuring concept involves profound changes to the company's organisational structure, processes, capacities and corporate governance mechanisms. Nonetheless, it cannot be guaranteed that the new strategy will produce the desired success within the planned time period. Furthermore, these drastic adjustments give rise to implementation risks and other risks, resulting (for example) from the loss of know-how, process gaps or even demotivation.

International expansion The Phoenix Solar Group maintains an international presence, with subsidiaries on three continents. As a result of the new business strategy, the Group will be highly dependent on these markets and on the earnings contributions to be generated by the subsidiaries in these markets in the next one to two years. This assessment applies in particular to the large-scale projects planned in the United States and Asia. The primary focus on countries outside of the European Union poses a heightened risk, due to the Group's involvement in different legal, political and currency systems. Misjudgements of legal and economic conditions leading to unforeseen cost burdens are fundamentally possible. We will strive to counter this risk by means of close, regular coordination with our subsidiaries in the context of a standardised Group reporting system.

In some cases, project development and construction of photovoltaic power plants in foreign countries are subject to greater risks than in Germany, particularly with respect to project development costs and times and the completion of photovoltaic systems. Therefore, delays and cost overruns compared to original plans cannot be ruled out.

7.4.3 BUSINESS RISKS

Procurement Due to the considerable lead times in production and the relatively long delivery routes (especially for modules and inverters), procurement decisions need to be made at an early stage. However, the inherent volatility of the Group's sales markets, which is exacerbated in some cases by constant political debates concerning changes to the legal framework conditions, makes it considerably more difficult to plan purchases of necessary goods at the exact time they will be needed. If misjudgements are made in this process, the Group could end up either with insufficient inventories or with excessively high inventories.

The discontinuation of the domestic business and the complete liquidation of the company's inventories will virtually eliminate this risk position in Germany in the future. However, a portion of the risk will be shifted to our subsidiaries in the European Union, which had previously been supplied by the parent company. The close monitoring of all subsidiaries, accompanied by stringent inventory management standards, are measures that will considerably lower the risk of inventory devaluations.

7.4.4 FINANCIAL RISKS

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

At the present time, however, the company's management believes that the company's solvency is secured for the term of the syndicated loan, particularly in view of the conservative assumptions concerning cash inflows and outflows in the underlying business plan.

Based on the Group's consolidated earnings in 2012, in conjunction with the business plan, any scenario that would deplete the parent company's equity to such an extent that it would constitute insolvency according to the definition of bankruptcy law is not deemed probable at the present time.

Liquidity The availability of credit to finance photovoltaic power plants is affected by the increasingly restrictive lending practices of banks, also in the international context. Phoenix Solar will seek to counter this trend initially by means of focusing almost entirely on the EPC business. This business is typically financed with bridge loans for construction, which reduces the need for liquidity. The current business plan, which has been coordinated with the lenders, foresees adequate guarantee lines for this purpose. In the course of further developments, however, particularly with respect to large-scale projects and possible overlaps between them, it may turn out that the available guarantee lines are not enough to cover the needs of the Group. In that case, it may be impossible to exploit revenue and earnings potential. We will seek to lower this risk through close coordination with the subsidiaries and through rigorous guarantee management. Furthermore, liquidity risk is limited by more restrictive internal regulations regarding the start of construction of solar power plants. Nonetheless, such risks cannot be completely avoided. Stringent liquidity management, receivables management and claims management are instruments employed to control these risks.

Currency and interest rate risk Some of our financial ratios are affected by exchange rate fluctuations in our global business activities. The focus on international markets heightens this risk. We limit transaction-related currency risks by optimising operational cash inflows and outflows. Further currency risks are hedged by means of hedging instruments such as foreign exchange futures and options.

7.4.5 OTHER RISKS

Legal and tax risks In the course of its normal business activities, the Phoenix Solar Group may be a party to court proceedings and other proceedings. Such proceedings mainly consist of judicial actions against customers for payment of unpaid invoices, and claims brought against our company by customers or suppliers. Provisions are recognised for such legal disputes as soon as it is probable that the company has an obligation and an adequate estimation of the given amount is possible. The provisions so recognised may not be adequate in specific cases, which would have an effect on the Group's operating results, cash flows and financial position.

Changes in tax laws and other laws in individual countries in which Phoenix Solar conducts business may lead to an unforeseen increase in tax expenses. The discontinuation of intragroup deliveries will reduce tax risks considerably, to the extent that national tax authorities apply different interpretations of the Group-wide transfer prices for intragroup deliveries of goods and services.

Personnel risks In connection with the further restructuring of our company, we had no choice but to implement a further, substantial reduction of our workforce in Germany. The reduction of personnel capacities also entailed a loss of operational and technical expertise. Therefore, there is a potential risk that the Phoenix Solar Group will not be able to recruit adequately trained personnel, particularly for key positions, after the present consolidation phase. That could influence the company's further development and impact the Group's operating results, cash flows and financial position.

IT Risks The core business processes of the subsidiaries and the entire Group are highly dependent on the reliability of information technology systems. Therefore, we continually review our IT systems, particularly with respect to data security. Because data security is not a condition, but a constant process, the IT infrastructure is regularly updated and upgraded. The discontinuation of business activities in Germany will entail a significant reduction in the company's dependence on IT systems because considerably fewer systems will be in use.

7.5 GENERAL ASSESSMENT OF THE GROUP'S RISK SITUATION

In the estimation of the Executive Board, the risks described above are manageable and the survival of the Phoenix Solar Group as a going concern is not endangered at the time of the present Annual Report. This assessment applies to both the individual companies and the Group. The overall risk position has increased since the prior-year report, particularly as a result of the on-going market changes, the further intensification of competition pressure, potential changes in basic regulatory conditions, and the adjustment measures necessitated by those factors, some of which are challenging. Based on the current status of information, however, we anticipate a slight reduction in the Group's risk position in the financial year 2013, particularly due to the discontinuation of the trading and project business in Germany.

8 FORECAST REPORT

8.1 FUTURE BUSINESS STRATEGY

As part of the newly adopted business strategy, Phoenix Solar AG has decided to discontinue all business activities which cannot be expected to regain profitability in the foreseeable future, including the components & systems business and the project business in Germany. By virtue of the successful internationalisation efforts that were commenced at an early stage, Phoenix Solar is represented and also now established in the internationally attractive regions. Therefore, the company will focus on the further development of its international subsidiaries, both in the components and systems business and in the project business. To that extent, the Group's two segments will continue to operate as before. In addition, however, Phoenix Solar will seek to exploit new opportunities in the solar market in Germany, particularly including self-consumption concepts and solutions, which are expected to emerge independently of the regulatory environment in the future. Also after the recent comprehensive restructuring of its organisation in Germany, Phoenix Solar AG will have the resources and expertise to develop and, where applicable, implement new business models in all market segments, in cooperation with business partners and service providers.

Therefore, Phoenix Solar will focus on three main priorities in the financial year 2013:

- Implementation of the recent, comprehensive restructuring programme in Germany, as part of the new business strategy;
- Management and further development of the international subsidiaries;
- The development and, where applicable, implementation of new business models, with an emphasis on the German market.

Thanks to the adjusted financing agreement that will now remain in effect for two years, namely until March 2015, the company will be able to focus all its resources on these priorities.

8.2 GENERAL ECONOMIC CONDITIONS

8.2.1 ECONOMIC OUTLOOK

Experts predict that the global economic recovery will gradually strengthen again in 2013. However, European countries suffering under the weight of high public debt levels may be exempt from this development. According to latest estimates of the International Monetary Fund (IMF), global economic output will rise by around 3.5 percent in 2013. With a total forecast growth rate of 5.5 percent, emerging-market countries are expected to make a disproportionately high contribution to global economic growth. For the industrialised nations, the experts predict much more subdued growth of 1.4 percent. The economic performance of the euro zone in particular will be held back by the high public debt loads of individual member states. Whereas Germany is predicted to experience moderate growth of 0.6 percent in 2013, the economic output of the euro zone in its entirety is expected to contract by 0.2 percentage points. According to the IMF's experts, the U.S. economy should expand by 2.0 percent in 2013, thereby continuing on a course of appreciable recovery. For the emerging-market countries of Asia, the IMF anticipates relatively strong growth of 7.1 percent.

8.2.2 INDUSTRY OUTLOOK

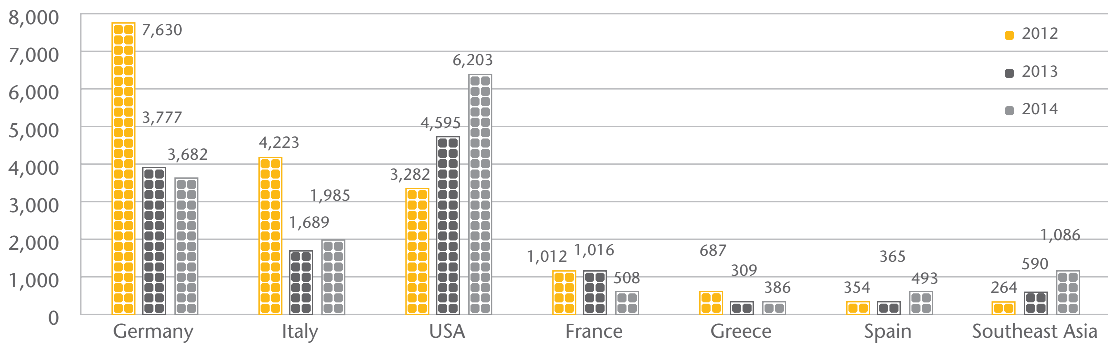
Most industry experts and associations anticipate further growth of the worldwide photovoltaic market in 2013, albeit with considerable regional differences. While hardly any positive momentum is expected for the European photovoltaic market, the Asian market in particular should prove to be a growth driver in 2013. For the United States, the experts anticipate a roughly 50 percent increase in new installed capacity. Thus, both the number and size of markets in which photovoltaic technology appears to be attractive for purely economic reasons, as opposed to state subsidy programmes, are growing. The Phoenix Solar Group estimates that the total worldwide photovoltaic market will amount to somewhere between 35 GWp and 38 GWp in 2013.

For Germany, Phoenix Solar anticipates more demanding framework conditions in 2013, accompanied by extreme uncertainty among end customers and investors as regards future photovoltaic subsidy policies. According to Phoenix Solar's assessment, therefore, the German market has already peaked with respect to new installed capacity. According to scenarios of independent market researchers, it is even possible that new installed capacity will amount to just 3.8 GWp in 2013, only half the level of 2012. Under its new business strategy, the company is responding to this development by focusing on the international business and on developing new business models for the German market.

Also in the other countries of Europe besides Germany, little if any growth momentum can be discerned at the present time. Financing problems will continue to affect the Greek market. In the fourth quarter of 2012, the Greek government resolved to introduce an income tax on electricity generated by photovoltaic installations built between 2007 and 2011. However, this new tax has not yet influenced the development of the Greek market very much. Given the high levels of public debt and the expiration of subsidies under the Conto Energia programme, the Italian photovoltaic market can be expected to shrink in 2013. The subsidy moratorium imposed by the Spanish government in 2012 and the newly introduced electricity income tax has brought the Spanish market to a virtual standstill. The introduction of a net metering rule, which is expected in 2013, could help revive the segment of small photovoltaic systems, in particular. In France, an upper limit of 500 MWp was imposed for subsidies to photovoltaic plants in 2011. The French market is expected to remain constant at around 1 GWp in 2013.

On the other hand, the growth of the global market will be driven by dynamic markets such as the United States, where we anticipate new installed capacity of roughly 4.6 GWp in 2013. Although most financial support programmes in the United States have expired, some states have imposed minimum quotas for energy from renewable sources for utilities. In the meantime, moreover, solar power has become the lowest-cost form of energy generation, so that investments in photovoltaic power plants are also financially promising. We also anticipate substantial percentage growth rates in our most important Asian markets, albeit from a lower base.

Market forecast



Source: MAXIM Group LLC

8.3 ANTICIPATED BUSINESS PERFORMANCE

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

8.3.1 ANTICIPATED BUSINESS PEFORMANCE OF THE SEGMENTS

Components & Systems After the discontinuation of business activities in Germany, the relative importance of the segments will change even more in the financial year 2013. The Components & Systems segment, which accounted for less than half of consolidated revenues already in 2012, is expected to contribute only about one third of total revenues in 2013. Thus, the relative importance of the segments has reversed from earlier financial years, when Components & Systems generated a substantial majority of the Group's business. As of 2013, this segment will comprise the revenues generated in Asia and France, as well as the components element of the German operation and maintenance business.

Power plants We anticipate growth of nearly 50 percent in this segment. By reason of the sharp decline in system prices, photovoltaic technology today is a very low-cost means of generating energy, and that is motivating energy utilities and investors to build solar power plants in many markets. For that reason, we expect to benefit from sharply rising demand in those markets with growth potential, both in 2013 and beyond.

8.3.2 ANTICIPATED BUSINESS PERFORMANCE OF THE GROUP

The strategic reorientation of the Phoenix Solar Group entails a strong focus on fast-growing regions and on those markets in which our subsidiaries have established a firm position. In 2013 and 2014, we anticipate the strongest growth in the United States. Based on current business plans, our subsidiary in that country should be able to install new capacity of between 45 and 55 MWp and contribute about 40 percent of the Group's total revenues already in 2013. We expect to generate another 40 percent of our revenues in the markets of Asia, Greece and Germany (from the continued provision of operation and management services in Germany). In Asia, we plan to install between 35 and 45 MWp of new capacity. These budget figures are based on existing orders and from a risk-weighted sales plan.

In total, we expect to generate consolidated revenues of between EUR 160 million to EUR 190 million in 2013, and therefore achieve some sales growth compared to 2012. Despite the anticipated non-recurring expenses for the restructuring programme, we expect to achieve a further significant reduction in the operating loss (EBIT) of an amount between EUR 7 million and EUR 2 million, including restructuring expenses, due to the anticipated decline in personnel expenses and other operating expenses. In the following year 2014, we expect to generate further growth of between 5 and 9 percent and a positive operating result (EBIT) again.

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

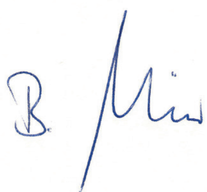
8.4 ANTICIPATED DEVELOPMENT OF FINANCING AND LIQUIDITY

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

8.5 FUTURE DIVIDEND POLICY

Generally speaking, the goal of Phoenix Solar AG's dividend policy is to maintain the investment value of the company's share, while also being able to finance the company's future growth and meet the needs of the current business situation. The company has achieved this goal in the past. However, in consideration of the substantial losses incurred by the company in 2011 and 2012 and the fact that the company is currently undergoing a restructuring phase, no dividend distributions are planned in the foreseeable future.

Sulzemoos, 27 March 2012
Phoenix Solar Aktiengesellschaft
The Executive Board



Dr. Bernd Köhler
(Chief Executive Officer)

Dr. Murray Cameron
(Chief Operating Officer)

CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM 1 JANUARY UNTIL 31 DECEMBER 2012 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

Consolidated income statement 067
Consolidated statement of comprehensive income 067
Consolidated balance sheet 068
Consolidated statement of changes in equity 070
Consolidated cash flow statement 071

CONSOLIDATED INCOME STATEMENT

Persuant to IFRS for the period from 1 January 2012 until 31 December 2012 in k€	Notes C.	01/01/2012 – 31/12/2012	**01/01/2011 – 31/12/2011**
Revenues	(1)	155,430	393,484
Change in inventory of work in process	(2)	3,299	10,865
Overall performance		**158,729**	**404,349**
Other operating income	(3)	7,799	9,402
Cost of materials	(4)	146,167	430,911
Personnel expenses	(5)	21,073	29,992
Depreciation and amortisation	(6)	5,957	1,636
Other operating expenses	(7)	25,171	35,919
Operating result		**– 31,840**	**– 84,707**
Result from associated companies		50	27
EBIT		**– 31,790**	**– 84,680**
Financial income		226	380
Financial costs		5,727	4,597
Financial result	(9)	**– 5,501**	**– 4,217**
Consolidiated net income before income taxes (EBT)		**– 37,291**	**– 88,897**
Income taxes	(10)	300	– 2,522
Consolidiated net income for the period		**– 37,591**	**– 86,375**
– of which due to minority interest		– 308	632
– of which due to majority shareholders		– 37,283	– 87,007
Earnings per share			
Earnings per share (basic) (in €)	(11)	– 5.10	– 11.80
Earnings per share (diluted) (in €)	(11)	– 5.10	– 11.80

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

pursuant to IFRS for the period from 1 January 2012 until 31 December 2012 in k€	Notes D.	01/01/2012 – 31/12/2012	**01/01/2011 – 31/12/2011**
Consolidiated net income for the period		**– 37,591**	**– 86,375**
Transactions associated with minority interests		0	– 19
Differences from currency translation		34	347
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(15)	**34**	**328**
Overall performance		**– 37,557**	**– 86,047**
– of which due to minority interest		– 308	612
– of which due to majority shareholders		– 37,249	– 86,659

CONSOLIDATED BALANCE SHEET

pursuant to IFRS as at 31 December 2012

ASSETS k€	Notes C. and D.	31/12/2012	31/12/2011
Noncurrent assets			
Intangible assets	(12,15)	1,180	4,503
Goodwill	(13,15)	298	533
Property, plant and equipment	(14,15)	15,612	3,197
Investments in associates	(16)	397	395
Other participating interests	(17)	161	160
Noncurrent receivables	(18)	497	498
Deferred tax assets	(10)	2,067	2,236
Noncurrent other financial assets	(23)	290	806
Total noncurrent assets		**20,501**	**12,328**
Current assets			
Inventories	(19)	11,593	55,911
Prepayments	(20)	331	1,033
Receivables from long-term construction contracts	(21)	665	14,995
Trade receivables	(22)	26,244	31,597
Current other financial assets	(23)	10,824	10,629
Current other non-financial assets	(25)	11,584	7,631
Current income tax assets		2,047	3,367
Cash and cash equivalents	(26)	8,862	6,412
Total current assets		**72,151**	**131,575**
Total assets		**92,652**	**143,903**

LIABILITIES AND SHAREHOLDERS' EQUITY k€	Notes C. and D.	31/12/2012	31/12/2011
Equity			
Subscribed capital	(27)	7,373	7,373
Capital reserve	(27)	64,582	64,528
Accumulated other equity	(27)	– 55,035	– 17,787
Share of majority shareholders in consolidated equity		**16,919**	**54,114**
Share of minority interest in consolidated equity		384	692
Total equity		**17,304**	**54,806**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities	(28)	10	74
Noncurrent provisions	(29)	1,672	2,452
Deferred tax liabilities	(10)	32	21
Total noncurrent liabilities and provisions		**1,714**	**2,547**
Current liabilities and provisions			
Current financial liabilities	(28)	39,543	24,726
Liabilities from long-term construction contracts	(21)	1,759	1,749
Trade payables	(30)	17,799	24,531
Other financial liabilities	(31)	3,697	4,038
Other non-financial liabilities	(31)	5,550	13,763
Current provisions	(29)	4,791	9,861
Current income tax liabilities		495	7,882
Total current liabilities and provisions		**73,634**	**86,550**
Total liabilities and shareholders' equity		**92,652**	**143,903**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/2011 until 31/12/2012 k€	Notes C. and D.	Subscribed capital	Capital reserve	Accumulated other equity	Share of majority shareholders in consolidated equity	Share of minority interest in consolidated equity	Total equity
As per 1 January 2011		**7,373**	**63,559**	**71,453**	**142,385**	**60**	**142,445**
Reserve for share options	(27)		969		969		969
Dividendpayment	(27)			– 2,581	– 2,581		– 2,581
Difference from currency translation	(27)			348	348	0	348
Consolidated net income/loss in 2011				– 87,007	– 87,007	632	– 87,375
As per 31 December 2011		**7,373**	**64,528**	**– 17,787**	**54,114**	**692**	**54,806**
As per 1 January 2012		**7,373**	**64,528**	**– 17,787**	**54,114**	**692**	**54,806**
Reserve for share options	(27)		54	0	54	0	54
Difference from currency translation	(27)		0	34	34	0	34
Change in companies to be consolidated				0	0	0	0
Consolidated net income/loss in 2012				– 37,282	– 37,282	– 309	– 37,591
As per 31 December 2012		**7,373**	**64,582**	**– 55,035**	**16,920**	**383**	**17,304**

CONSOLIDATED CASH FLOW STATEMENT

pursuant to IFRS for the period 2012 from 1 January 2012 until 30 December k€	Notes C. and D.	01/01/2012 – 31/12/2012	01/01/2011 31/12/2011
Consoldiated income before income taxes		– 37,291	– 88,897
Depreciation and amortisation	(6)	5,957	1,636
Other non-cash income (-) and expenses (+) (including result from associated companies)		12,519	22,235
Profit/loss from disposal of intangible assets and equipments		24	– 1
Financial income	(9)	– 226	– 380
Financial costs	(9)	5,727	4,597
Sub-total		**– 13,289**	**– 60,810**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	– 8,747	8,849
Non-cash changes in noncurrent assets	(14)	– 15,069	0
Increase/decrease in inventories	(19)	35,068	71,920
Increase/decrease in prepayments	(20)	702	2,312
Increase/decrease in receivables from long-term construction contracts	(21)	14,330	67,232
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	3,611	3,243
Increase/decrease in assets	(23),(25)	– 666	6,697
Increase/decrease in liabilities	(30),(31)	– 15,275	– 58,252
Funds generated by operating activities		**665**	**34,705**
Interest paid	(9)	– 4,211	– 4,098
Income taxes paid	(10)	– 5,695	– 852
Cash flow from operating activities		**– 9,241**	**29,755**
Proceeds from associated companies		47	37
Proceeds from disposal of intangible assets and equipment		22	10
Purchase of intangible assets and equipment	(12), (14), (15)	– 353	– 2,797
Cash flow from investing activities		**– 283**	**– 2,750**
Dividends paid	(11)	0	– 2,581
Payments in connection with financial liabilities	(28)	14,752	– 27,878
Commission for syndicated loan agreement		– 2,964	0
Interest income		186	278
Cash flow from financing activities		**11,974**	**– 30,181**
Changes in cash and cash equivalents		2,450	– 3,176
Currency-induced changes in cash and cash equivalents		0	0
Consolidation-related changes in cash and cash equivalents		0	0
Net change in cash and cash equivalents		**2,450**	**– 3,176**
Cash and cash equivalents at the start of the period	(26)	6,412	9,588
Cash and cash equivalents at the end of the period	(26)	8,862	6,412
Increase/decrease in cash and cash equivalents		**2,450**	**– 3,176**

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE 2012 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. Basic principles and methods 073
B. Recognition and measurement methods 084
C. Notes to the consolidated income statement 094
D. Notes to the consolidated statement of financial position 102
E. Additional notes to the consolidated financial statements 119
F. Other disclosures 121
G. Supplementary disclosure obligations persuant to the German Commercial Code (HGB)... 131
H. Date and signing of the consolidated financial statements 134

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL INFORMATION

As of 31 December 2012, the Phoenix Solar Group (also referred to hereinafter as the Phoenix Group) consisted of 26 companies with a total of 228 (PY: 411) employees (including casual labourers, excluding members of the Executive Board).

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

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

The business object of Phoenix Group comprises the development, production, sales, operation and administration of plants for generating energy from renewable energy sources, and the construction and maintenance of such plants. The Phoenix Group also distributes components and systems for generating energy from renewable energy sources. Most of the Group's business activities were conducted in the euro zone, North America and Asia in 2012.

(2) INFORMATION ON ACCOUNTING STANDARDS

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

Therefore, Phoenix Solar AG prepares its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS) to be applied as of 31 December 2012 as issued by the International Accounting Standards Board (IASB) in London and adopted by the EU in the time until the preparation of the present consolidated financial statements. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to financial year 2012 and the earlier interpretations of the Standing Interpretations Committee (SIC), insofar as adopted by the EU until preparation of these consolidated financial statements, as well as the supplementary provisions of Section 315a (1) of the German Commercial Code (HGB) have been observed in the present consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement plus the statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the additional Group management report. The consolidated financial statements were prepared on the basis of the

going-concern principle and the historical cost principle, with the exception of the fair model value applied for purposes of measuring the value of derivative financial instruments.

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

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

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

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

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

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

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

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

As a wholesaler, it is necessary to keep certain products in sufficient reserve quantities in order to quickly fill individual release orders by customers. The portfolio of products is constantly monitored and periodically adjusted. Adjustments are made on the basis of the company's estimates of the marketability of products and the anticipated demand. In making such estimations, it cannot be ruled out that the demand may be estimated incorrectly. This can result in the creation of inventories that run the risk of becoming

obsolete due to technological progress and would therefore have to be written down to the lower net realisable value. The relevant values are forecast by Sales.

- **ESTIMATION OF INCOME TAXES**

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

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

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

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

In conducting impairment tests of goodwill, the Group applies calculations based on the discounted cash flow method. For this purpose, the expected cash flows over the next three years are derived from the financial plan of the tested cash-generating unit. The recoverable amount is highly dependent on the discount factor applied in connection with the discounted cash flow method, as well as the expected future cash flows and the growth rate applied for extrapolation purposes.

- **MEASUREMENT OF FINANCIAL INSTRUMENTS**

In those cases in which no primary market exists, the fair value of financial instruments must be determined either on the basis of derived market prices or through the use of recognised valuation models such as the discounted cash flow method. The Group applies the "fair-value hierarchy" defined in IFRS 7, under which the fair value is determined on the basis of input factors assigned to one of three levels, depending on the reliability of the respective input factors, as follows:

– Level 1 – Quoted prices for similar instruments,
– Level 2 – Directly observable market input factors, if not assignable to Level 1,
– Level 3 – Input factors not based on observable market data.

Model inputs classified as Level 1 and 2 are determined to the greatest extent possible on the basis of observable market data. When that is not possible, as in the case of Level 3 inputs, the fair values must be determined by means of discretionary judgments, to some extent. Such discretionary judgments relate to parameters such as liquidity risk, credit risk and volatility. Changes in the assumptions underlying such factors can have an effect on the recognised fair values of financial instruments.

- **MEASUREMENT OF STOCK OPTIONS**

IFRS 2 is applied for the accounting treatment of stock option plans, as particular forms of compensation under which the company will be obligated to deliver its own shares to the beneficiaries when the stock options are exercised. The fair value of the stock options at the grant date is determined on the basis of market prices (quoted prices of Deutsche Börse AG, Frankfurt), in consideration of the issue terms and conditions and by application of generally recognised measurement techniques for financial instruments. The factors considered in measuring the value of stock options are the exercise price, the term, the current market value of the underlying instrument (the share of Phoenix Solar AG), the expected volatility of the market price based on historical volatilities, the expected dividends to be paid on the shares and the

risk-free interest rate for the term of the stock options. Other factors taken into consideration, as particular aspects of the exercise possibility, are the necessary waiting period (vesting period) and the potential exercise of the stock options, based on historical exercise patterns. In subsequent periods, the calculated value of the stock options is expensed proportionally over the term, in consideration of the assumed length of service or the assumed turnover among the beneficiaries. Because the corresponding amounts are presented in personnel expenses and in the additional paid-in capital reserves, changes in estimates relative to the quantity structure can lead to discontinuous capital appropriations.

- **MEASUREMENT OF LONG-TERM INCENTIVES**

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

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

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

a) New Standards, amendments and Interpretations to be applied in 2012

In October 2010, the IASB published "Disclosures – Transfer of Financial Assets" as an amendment to IFRS 7 Financial Instruments: Disclosures. The amendment requires reporting entities to make quantitative and qualitative disclosures concerning transfers of financial assets when the transferred assets are derecognised entirely or when the transferring company still has a continuing involvement in the transferred financial assets. The amended Standard also requires additional disclosures if an inappropriately high proportion of such transactions are conducted at the end of the period, close to the reporting date. This amendment must be applied in financial years that begin on or after 1 July 2011. The European Union endorsed the new rules in November 2011. This amendment, which has been endorsed by the EU, will not give rise to any additional disclosure requirements for the Phoenix Solar Group.

In December 2010, the IASB published "Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12." These amendments clarify what kind of recovery is to be assumed for certain types of assets. They establish a rebuttable presumption that the carrying amount of investment property measured at fair value in accordance with IAS 40 Investment Property will be recovered through sale. They also establish

a rebuttable presumption that the carrying amount of a non-depreciable asset measured at the restated value according to the revaluation model of IAS 16 Property, Plant and Equipment will be recovered through sale. The Interpretation SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets was rescinded. These amendments were endorsed by the European Union in December 2012. They must be applied in financial years that begin on or after 1 January 2012. These changes will have no effects on the financial position, cash flows and results of operations, or on the disclosure obligations of the Phoenix Solar Group.

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

The following Standards, amendments and Interpretations were published by the IASB in the past and must be applied, as a general rule, in financial years that begin on or after 1 January 2012. However, these rules are not relevant to the consolidated financial statements of the Phoenix Group.

The review of newly applicable Standards was not yet completed as of the reporting date. In Section c) below, an appropriate remark is made in the discussion of each newly applicable Standard, amendment or Interpretation that may not be relevant to the Phoenix Group.

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

The following Standards, amendments and Interpretations were published on or before the reporting date and must be applied as of 1 January 2013 at the earliest.

In December 2011, the IASB published amendments to the offsetting rules contained in IAS 32 Financial Instruments: Presentation. The changes clarify the meaning of some of the rules applicable to offsetting financial assets and financial liabilities in the statement of financial position. The new provisions must be applied retroactively in financial years that begin on or after 1 January 2014. They were endorsed by the European Union in December 2012. Phoenix Solar AG is currently assessing the resulting effects on the Group's financial position, cash flows and results of operations; at the present time, however, it is assumed that these amendments will not result in material changes.

Also in December 2011, the IASB published expanded disclosure obligations pertaining to set-off rights in IFRS 7 Financial Instruments: Disclosures. The new provisions must be applied retroactively in financial years that begin on or after 1 January 2013. They were endorsed by the European Union in December 2012. Phoenix Solar AG is currently assessing the resulting effects on the financial position, cash flows and results of operations.

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

The new Standard must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. The new provisions were endorsed by the European Union in December 2012. The Phoenix Group is currently reviewing the new Standard to determine what effects, if any, the changes will have on the presentation of the Group's financial position, cash flows and results of operations.

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

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

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

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

In June 2012, the IASB published amendments to the transitional rules for the three new consolidation standards IFRS 10, IFRS 11 and IFRS 12 (see above) issued in May 2011. The new rules have not yet been endorsed by the European Union. It is expected that they will have to be applied within the European Union in financial years that begin on or after 1 January 2013.

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

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

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

on the recognition and measurement of financial instruments resulting from the first-time application of IFRS 9.

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

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

In May 2012, the IASB published its Annual Improvements to IFRSs 2009 – 2011 Cycle, which had the effect of amending five Standards. The new rules must be applied retroactively in financial years that begin on or after 1 January 2013. They have not yet been endorsed by the European Union. The Phoenix Solar Group is currently assessing the resulting effects on the presentation of the Group's financial position, cash flows and results of operations. It is assumed that the new rules will not lead to material changes. In the amendments to IAS 1 Presentation of Financial Statements, it is specified that, when comparison information is provided voluntarily in the financial statements, related disclosures must also be made in the notes to the financial statements. The amendments to IAS 16 Property, Plant and Equipment entail the consequence that maintenance devices must be presented either as property, plant and equipment or as inventories, depending on the expected useful lives. The amendments to IAS 32 Financial Instruments: Presentation specify that the tax effect of distributions to holders of equity instruments and the transaction costs of an equity transaction must be presented in accordance with IAS 12. As a result of the amendments to IAS 34 Interim Financial Reporting, disclosures concerning segment assets and liabilities are only required when they are the subject of regular managerial reporting and when significant changes have occurred in this respect since the last annual financial statements. The amendments to IFRS 1 First-time Adoption of IFRS have no effect on the Phoenix Solar Group.

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

The following Interpretations were published by IFRIC on or before the reporting date and must be applied at the earliest in financial years beginning on or after 1 January 2013. These Interpretations relate to matters that were not relevant to the Phoenix Group as of the reporting date.

In June 2011, the IASB published amendments to IAS 19 Employee Benefits and the corresponding amendments to IAS 1 Presentation of Financial Statements. These amendments affect the presentation of items within other comprehensive income in the statement of comprehensive income. The amendments require that items recognised in other comprehensive income be presented in two categories, depending on whether or not they will be reclassified (or "recycled") as profit or loss at a future point in time. The amendments to IAS 1 must be applied in financial years that begin on or after 1 July 2012. They were endorsed by the European Union in June 2012. The most important amendment to IAS 19 is that unforeseen changes in pension obligations and plan assets, which are known as actuarial gains and losses, must be recognised directly in other comprehensive income (OCI) in the future. The amendments must be applied retroactively in financial years that begin on or after 1 January 2013. The European Union endorsed the amendments in June 2012. Because the Phoenix Group does not maintain any such pension plans, these changes will have no effect on the financial statements and disclosures of the Phoenix Solar Group.

(3) REPORTING DATE

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

(4) DATE OF AUTHORISATION FOR ISSUE

The financial statements were authorised for issue on 27 March 2013. The release was granted by the Executive Board and was submitted to the Supervisory Board for approval.

(5) CONSOLIDATION PRINCIPLES

GROUP OF CONSOLIDATED COMPANIES

All subsidiaries are included in the consolidated financial statements of Phoenix Solar AG according to the principles of IAS 27. The consolidation group of the Phoenix Solar Group has changed since 31 December 2011.

In addition to the parent company, therefore, the following companies were consolidated, including permanent distribution subsidiaries and project subsidiaries:

Subsidiaries	Type of Consolidation	Share of equity/ voting rights
Phoenix Solar S.L., Madrid, Spain	Full consolidation	100 %
Phoenix Solar S.r.l., Rome, Italy	Full consolidation	100 %
Phoenix Solar E.P.E., Athens, Greece	Full consolidation	100 %
Phoenix Solar SAS, Lyon, France	Full consolidation	100 %
Phoenix Solar Incorporated, San Ramon, Unites States of America	Full consolidation	100 %
Phoenix Solar Pte Ltd, Singapore, Singapore	Full consolidation	75 %
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	Full consolidation	75 %
Phoenix Solar L.L.C., Muskat, Oman	Full consolidation	70 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix SonnenFonds GmbH & Co. KG D4, Sulzemoos, Germany	Full consolidation	100 %

Project companies	Type of Consolidation	Share of equity/ voting rights
SOMI GmbH, Sulzemoos, Germany	Full consolidation	100 %
Exploris GmbH, Sulzemoos, Germany	Full consolidation	100 %
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	75 %
Isla Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia ed Ambiente S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia zero Emissione S.r.l., Ragusa, Italy	Full consolidation	51 %
MAS Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
Plaxo Solar S.L., Madrid, Spain	Full consolidation	100 %
Abalia Solar S.L., Madrid, Spain	Full consolidation	100 %
Hexasolar S.L., Madrid, Spain	Full consolidation	100 %
Bâtisolaire 3 SAS, Carpiquet, France	Full consolidation	100 %
Fe5 S.r.l., Milan, Italy	Full consolidation	100 %

Since the beginning of 2012, 20 companies have been removed from the consolidation group. Two of these companies were shut down, five were sold to or absorbed by other companies of the consolidation group and 13 were sold to third parties. The companies sold were project companies.

On 16 August 2012, the limited partner shares held by SOMI GmbH in the project companies Aktena Solar 1 to 4 GmbH & Co.KG, Sulzemoos, were sold and assigned to the general partner Exploris GmbH. In that connection, moreover, Trasse und Umspannwerk Jocksdorf II GmbH & Co.KG was merged into Exploris GmbH, Sulzemoos, by way of absorption.

In the financial year 2012, the project company Aktena Solar 5 GmbH & Co.KG, Sulzemoos was sold after completion of a photovoltaic project. A deconsolidation loss of EUR 5 thousand was recognised.

On 10 April 2012, the project holding company BCI Kazanlyk Holding EOOD, Bulgaria, and the associated 10 project companies BCI Kazanlyk 1 to 10 EOOD, Bulgaria, were sold in connection with the completion of a photovoltaic project in Bulgaria. A deconsolidation gain of EUR 123 thousand was recognised in this connection.

In March 2012, the Australian subsidiary was closed according to plan, due to the withdrawal of Phoenix Solar AG from the Australian solar market.

Furthermore, the subsidiary SP 1 d.o.o., Ljubljana, Slovenia, which had been formed in 2011, was liquidated in financial year 2012. A deconsolidation loss of EUR 5 thousand was recognised in this connection.

On 22 March 2012, the French project company PSFR001 SARL, Strasbourg, France, was sold after completion of a larger photovoltaic project in the Haute-Loire region of France. A deconsolidation gain of kEUR 111 was recognised in this connection.

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

Name of company k€	Type of consolidation	Share of equity/ voting rights	Eqity as of 31/12/2012	Profit/loss 2012
Phoenix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	At-Equity	31,2 %	737	72

Several limited partner companies for which Phoenix Solar Fonds Verwaltung GmbH serves as the general partner (without holding an equity stake in any case) are not consolidated because the relevant provisions of the articles of incorporation of these companies do not allow the general partner to exert a controlling influence on them. Because the Group paid its full capital contribution and did not enter any further agreements to support the business object, it is no longer subject to any corporate-law or contractual obligations to assume liability.

The project company Aktena 5 GmbH & Co KG was sold by Phoenix Solar AG to Phoenix Solar Fonds Verwaltung GmbH in 2012, thereby adding to the group of non-consolidated limited partner companies for which Phoenix Solar Fonds Verwaltung GmbH serves as the general partner:

Name of Company k€	Total assets 31/12/2012 (HGB)	Total liabilities 31/12/2012 (HGB)	Equity 31/12/2012 (HGB)	Period profit or loss 2012 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	300	9	290	42
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	299	8	290	42
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	269	8	288	40
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	291	8	283	37
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	295	8	286	40
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	293	7	285	39
Aktena 5 GmbH & Co. KG	1.416	48	192	– 56

Name of Company k€	Total assets 31/12/2011 (HGB)	Total liabilities 31/12/2011 (HGB)	Equity 31/12/2011 (HGB)	Period profit or loss 2011 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	360	69	291	47
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	360	69	291	47
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	360	69	291	46
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	353	69	284	43
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	357	69	288	47
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	355	68	287	46

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

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

Name of Company k€	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2012	Profit/loss 2012
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, Gruenwald, Germany	n.a.	50 %	– 60	– 360

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

CONSOLIDATION PRINCIPLES

a) Subsidiaries

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

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

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

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

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

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

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

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

b) Companies consolidated for the first time

No companies were added to the consolidation group in the financial year 2012.

c) Associated companies

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

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

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

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

B. RECOGNITION AND MEASUREMENT METHODS

(1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

REVENUE RECOGNITION

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

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

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

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

CONSTRUCTION CONTRACTS

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

external costs incurred as of the reporting date to the total estimated costs of each contract (cost-to-cost method).

In those cases in which contract revenue cannot be estimated reliably, revenues are recognised in the amount of probably recoverable costs incurred (zero profit method).

Such contracts are presented as receivables and payables under long-term construction contracts. If the capitalisable work performed exceeds the down payments received, construction contracts are presented as receivables under long-term construction contracts. If the balance after deduction of down payments received is negative, construction contracts are presented as payables under long-term construction contracts. Anticipated contract losses are recognised in full; in determining such losses, due consideration is given to discernible risks.

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

(2) SPECIFIC ITEMS OF THE STATEMENT OF FINANCIAL POSITION

INTANGIBLE ASSETS

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

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

In the case of intangible assets with determinable useful lives, the useful lives and the amortisation method applied are reviewed and adjusted, when necessary, at least as of every reporting date. Any such adjustment is made in connection with an estimation change, which is recognised in profit or loss in accordance with IAS 8. Impairment test principles are applied once a year to determine whether impairment losses should be charged against the carrying amounts of intangible assets with indeterminable useful lives; depending on the results of such impairment tests, the corresponding impairment losses are recognised as period expenses.

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

GOODWILL

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

PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16, items of property, plant and equipment are measured at acquisition cost less accumulated straight-line depreciation and impairments. The depreciation period is determined with reference to the expected economic useful life. Items of property, plant and equipment are depreciated pro rata temporis from the acquisition date. The residual carrying amounts, useful lives and depreciation method applied are reviewed at least at every year-end reporting date. If the expectations at that time differ from the previously applied estimates, the corresponding adjustments are made as changes of estimates in accordance with IAS 8. The acquisition or production cost comprises the purchase price, directly allocable costs required to bring the asset to its present location and condition as intended by the management, the estimated costs of demolition and clearance of the asset and the restoration of the site at which it was located. If an item of property, plant and equipment consists of more than one component with different useful lives, such material components are depreciated over their individual useful lives. Maintenance and repair costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs are capitalised to the extent that they are individually allocable to the acquisition of a qualifying asset. When an item of property, plant and equipment is retired or when no further economic benefits are expected from its continued use or retirement, the carrying amount of that asset is derecognised. The gain or loss on the derecognition of an item of property, plant and equipment, which is the difference between the net selling price and the carrying amount of the asset, is recognised as other operating income or other operating expenses as of the date of derecognition.

Depreciation is charged on a straight-line basis pro rata temporis over the useful lives, which currently range from 3 to 19 years.

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

An impairment test is conducted when there are indications of possible impairments of the carrying amounts of intangible assets with definite useful lives or property, plant and equipment. In such cases, the recoverable amount of the corresponding asset is determined in order to determine the extent of a possibly necessary writedown. The recoverable amount is equal to the fair value less costs to sell, or the value-in-use, whichever is higher. The value-in-use is equal to the present value of the expected future cash flows. If no recoverable amount can be determined for an individual asset, it is determined for the smallest identifiable group of assets (cash-generating unit) to which the asset in question can be attributed. For that purpose, the projected cash flows to be generated over the estimated useful life of the asset or cash-generating unit are estimated. The discount factor applied is determined on the basis of the risks associated with the asset or cash generating unit. The estimated cash flows reflect the assumptions made by the management and are corroborated by external information sources. If the recoverable amount of an asset is less than the carrying amount, an impairment loss is immediately recognised in profit or loss. If the recoverable amount of an asset or cash-generating unit for which an impairment loss had been recognised would be higher in subsequent periods, the earlier impairment loss is reversed; the maximum carrying amount of an asset after reversal of an impairment loss is the amortised cost that

would have resulted without an impairment loss. Such reversal of an impairment loss is recognised in profit or loss.

LEASES

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

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

The Phoenix companies rent buildings, company cars and operational and business equipment for their own use. These leases are classified as operating leases. The lease terms for buildings range from 1 to 17 years; the lease terms for company cars and copy machines range from 1 to 4 years.

OTHER INVESTMENTS

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

INVENTORIES

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

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

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

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

The expenses for writedowns of trading stock have been recognised in the income statement under the item of “Purchased goods and services”. Writedowns of “work in progress” are recognised directly in the item of “Change in inventories”.

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

ADVANCE PAYMENTS RENDERED

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

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

Upon initial recognition, non-derivative financial instruments are measured at fair value. Transaction costs incurred on the purchase of financial instruments (not measured at fair value through profit and loss) are added to the carrying amount of the asset upon initial recognition. Transaction costs incurred on the purchase of financial instruments measured at fair value are recognised immediately as expenses. In subsequent periods, non-derivative financial instruments are always measured at fair value or amortised cost, depending on the category to which they belong. The management determines the categorisation of non-derivative financial instruments at the time of initial recognition. If no separate market value is indicated in the notes to the financial statements, the market value is approximately equal to the carrying amount.

The following categories are applied for this purpose:

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

SUBSCRIBED CAPITAL AND ADDITIONAL PAID-IN CAPITAL RESERVES
Equity instruments without auxiliary conditions are always presented as equity.

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

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

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

NON-CONTROLLING INTERESTS
In accordance with IAS 27, non-controlling interests are presented as a separate line item within equity in the consolidated statement of financial position. Pro-rated losses are charged to the respective non-controlling interests in proportion to their share of Group equity, even if that leads to a negative balance for non-controlling interests.

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

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

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

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

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

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

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

FINANCIAL LIABILITIES

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

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

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

NON-FINANCIAL LIABILITIES

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

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

CONTINGENT LIABILITIES/ASSETS

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

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

INCOME TAXES

a) Current taxes

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

Changes in current tax liabilities or assets are recognised in profit or loss.

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

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

b) Deferred taxes

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

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

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

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

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

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

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

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

(3) UTILISATION OF PROFIT

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

(4) FOREIGN CURRENCY TRANSLATION

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

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

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2012	Average exchange rate in 2012	Exchange rate on reporting date 2011	Average exchange rate in 2011
USD / EUR	1.32027	1.28577	1.2949	1.3924
AUD / EUR	1.26483	1.24939	1.2724	1.3476
JPY / EUR	n/a	n/a	100.23	111.02
OMR / EUR	0.50851	0.49336	0.4970	0.5344
SGD / EUR	1.61315	1.60617	1.6815	1.7486
MYR / EUR	4.01872	3.95584	4.1069	4.2485
SAR / EUR	4.94968	4.82024	4.8553	5.220
BGN / EUR	1.95324	1.95440	1.9552	1.9542

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

(1) REVENUES

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

Revenues k€	2012	2011
Components and systems	72,454	152,470
Power plant	82,976	240,970
Other	0	44
Total	**155,430**	**393,484**

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

As of the reporting date, total revenues included revenues from long-term construction contracts (according to IAS 11) which had not yet been finally invoiced, in the amount of kEUR 29,337 (PY: EUR 88,159 thousand).

(2) INCREASE OR DECREASE IN WORK IN PROGRESS

This item presents the increase or decrease in inventories related to work in progress, for those projects that are not to be classified as customer-specific contract construction according to IAS 11. As of the reporting date, the increase in work in progress amounted to kEUR 3,299 (PY: EUR 10,865). This increase resulted from two photovoltaic plants completed in Italy and France in 2012, which were reclassified from inventories to noncurrent assets in the amount of kEUR 15,069 in the fourth quarter of 2012, by virtue of an Executive Board resolution stating the company’s intention to operate these plants permanently.

(3) OTHER OPERATING INCOME

Other operating income k€	2012	2011
Income from payment of claims for damages	616	445
Remuneration in kind	189	224
Income from reversal of provisions and liabilities	2,162	2,799
Electricity income	2,372	3,117
Income from disposal of project companies	0	851
Income from disposal of property, plant and equipment	22	10
Income from reversal of writedowns	1,473	1,121
Income from foreign exchange gains	461	658
Licensing income	0	15
Income from reversal of other provisions	624	0
Other	504	162
Total	**7,799**	**9,402**

The electricity income recognised in 2012 consisted of remuneration for power grid feeds from photovoltaic plants in Italy and France which had been classified as work in progress and presented within inventories until the third quarter, but were reclassified as property, plant and equipment in the fourth quarter of 2012 by virtue of an Executive Board resolution stating the company's intention to operate them permanently in the future. For additional information on this subject, please refer to Sections C. (2) and D. (14) of the notes to the consolidated financial statements. By contrast, the electricity income recognised in 2011 resulted from project-specific pilot operations and from temporal differences between the completion and sale of projects.

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

The income from the reversal of provisions and liabilities pertained to a large number of provisions recognised in prior years, which have not been fully consumed. They are usually recognised for period accrual purposes in connection with individual project completion stages and the anticipated specific project expenses. The total costs, as well as any additional costs or cost reductions to be included in the price, can only be concretised during the course of the projects in question. In addition to reversals of provisions recognised in respect of projects, provisions recognised in respect of litigation costs were reversed in the amount of kEUR 624 in financial year 2012.

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

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

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

(4) PURCHASED GOODS AND SERVICES

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

Purchased goods and services k€	2012	2011
Expenses of purchased goods	117,436	361,314
Expenses of purchased services	28,731	69,597
Total	**146,167**	**430,911**

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

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

(5) PERSONNEL EXPENSES

The personnel expenses break down as follows:

Personnel expenses k€	2012	2011
Wages and salaries	16,840	24,916
Expenses of stock option plans	54	936
Social security	4,091	4,075
Expenses for pensions and other benefits	88	65
Total	**21,073**	**29,992**

Since 1 July 2008, the company has offered all its employees a defined contribution pension plan based on salary deferral. The company makes matching payments on the contributions of the participating employees in accordance with the regulations of tax law and social security law. In the financial year 2012, an employer contribution of kEUR 88 (PY: kEUR 65) was recognised as an expense in the income statement. The Group has not extended any defined benefit pension commitments.

The expenses for other pension benefits amounted to kEUR 2 (PY: kEUR 2). These expenses resulted from direct insurance plans and contributions under the Capital Formation Act.

In connection with the restructuring plan that had become necessary and was initiated in the final quarter of the preceding financial year, active workforce reduction measures were required for the first time in the company's history. These measures were conducted in a socially acceptable manner on the basis of mutually agreed severance agreements to the greatest extent. In addition to the provisions for such severance agreements that were recognised in the financial year 2011, an amount of kEUR 521 was expended for severance awards.

The average number of employees during financial year 2012 is presented in the table below:

Employees (m/w)	2012	2011
Members of the Executive Board (parent company)	3	4
Permanent employees (m/f) (full-time and part-time)	248	375
Temporary employees	8	27
Total	**259**	**406**

(6) DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to kEUR 5,957 in the financial year 2012 (PY: kEUR 1, 636).

In connection with the discontinuation of loss-making operations, which was planned as of the reporting date and communicated to the public in an ad-hoc announcement on 11 February 2013, impairment losses in the total amount of kEUR 3,346 were recognised in the financial year 2012. Of this amount, kEUR 2,409 pertained to intangible assets and kEUR 937 pertained to property, plant and equipment. The value-in-use was determined on the basis of the still expected discounted cash flows until the planned closure of the cash-generating units represented by the Power Plants and Components & Systems segments as of 31 March 2013. Impairment losses were recognised in the ERP system in the amount of kEUR 2,048 and in IT equipment, office and operational equipment in the amount of kEUR 709.

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

(7) OTHER OPERATING EXPENSES

Other operating expenses k€	2012	2011
Administrative expenses	13,261	14,888
Selling expenses	8,007	13,821
Operating expenses	724	2,133
Other expenses	3,179	5,077
Total	**25,171**	**35,919**

The pronounced decrease in other operating expenses in the amount of kEUR 10,748 resulted from the restructuring programme launched in the final quarter of 2012, due to the strong focus placed on reducing other costs in the first phase.

The administrative expenses incurred in the financial year 2012 mainly consisted of rental expenses, legal and consulting expense, expenses for freelance workers and currency translation losses.

Selling expenses are composed of both direct sales expenses related to the performance of the sales function, primarily for sales commissions, packing for shipping, transport and transport insurance, freight, product-related and order-related market research, customer consulting services and bid preparation, as well as overhead sales expenses such as expenses of market research, advertising and promotion, including the participation in exhibitions and trade fairs, customer consulting services, warehousing, sales offic-

es, the processing of requests for quotes and orders, bid costing, statistics, invoicing, payment reminders and the management of the overall process.

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

Research and development costs in the amount of kEUR 45 (PY: kEUR 99) were recognised as operating expenses in the financial year 2012.

(8) INCOME FROM ASSOCIATED COMPANIES

Income from associated companies amounted to kEUR 50 in the financial year 2012 (PY: kEUR 27).

(9) FINANCIAL RESULT

The financial result was lower than the prior-year figure by EUR 1,284 thousand. Interest expenses amounted to EUR 5,727 thousand (PY: EUR 4,597 thousand), mainly for short-term financing loans, while interest income amounted to EUR 226 thousand (PY: EUR 380 thousand), mainly on call money accounts. No interest on qualified assets was capitalised, either in financial year 2012 or in the prior year.

(10) INCOME TAXES

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

Income taxes **k€**	2012	**2011**
Current taxes	1,463	1,008
Deferred taxes	– 1,163	– 3,530
Total	**300**	– 2,522

The recognised income tax expenses of kEUR 300 in the financial year 2012 (PY: kEUR – 2,522) was kEUR 10,257 higher than the expected income tax income of kEUR 9,957 (PY: income tax expenses of kEUR 23,735), which would have resulted theoretically from the application of the domestic tax rate of 26.7 percent (PY: 26.7 percent) to the consolidated profit before income taxes.

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

Reconciliation Statement k€	2012	2011
Profit before income taxes	– 37,291	– 88,897
Income taxes calculated by application of theoretical tax rate of 26.7 % (PY: 26.7 %)	–9,957	– 23,735
Changes in income tax expenses as compared to the calculated income tax expenses resulting from: - Non-period income taxes	717	359
- Tax effect of non-deductible expenses for stock options	14	251
- Tax effect of other non-deductible expenses	1,039	365
- Tax effect of differing tax rates	90	– 62
- Tax effect arising from the application of tax losses (-) that had not previously been recognised and from the non-recognition of losses (+)	8,442	21,252
- Tax effect of differing tax bases	85	202
- Other differences/ consolidation	– 185	– 6
Total	**300**	**– 2,522**
Effective tax rate	0.80 %	2.84 %

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

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

Income tax expenses and income are broken down as follows:

Income taxes k€	2012	2011
Current taxes	1,463	1,008
- thereof in Germany	278	319
- thereof in foreign countries	1,185	689
Deferred taxes	– 1,163	– 3,530
- thereof in Germany	0	– 3,372
- thereof in foreign countries	– 1,163	– 158
Total	**300**	– 2,522

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

Deferred taxes by item **k€**	**2012**	**2011**
Deferred tax assets		
Loss carry-forwards capitalised	2,126	3,430
Measurement of provisions	59	67
Other/consolidation	0	398
Total	**2,185**	**3,895**
- thereof current	803	1,328
- thereof noncurrent	1,382	2,567
Deferred tax liabilities		
Internally generated intangible assets	0	2
Property, plant and equipment	0	42
PoC measurement of construction contracts	14	1,577
Measurement of inventories	0	20
Other / Consolidation	136	38
Total	**150**	**1,679**
- thereof current	150	1,599
- thereof noncurrent	0	80

In total, deferred taxes of kEUR 118 (PY: kEUR 1,659) were netted with each other. All changes in deferred taxes were recognised in profit or loss, both in the financial year 2012 and in the prior year.

In addition, deferred tax assets of kEUR 2,126 (PY: kEUR 3,430) were recognised in respect of tax losses, in the case of temporary differences that are expected to reverse in the future; no deferred tax assets were recognised initially in respect of tax losses amounting to kEUR 121,063 (PY: kEUR 82,498), which would have to be applied against taxable individual results for the years 2012 to 2014, because the Group is currently in a turnaround phase and the new business plan still needs to be confirmed. After consolidation measures, deferred tax assets of kEUR 2,067 (PY: kEUR 2,236) and deferred tax liabilities of kEUR 32 (PY: kEUR 21) were recognised as of the reporting date.

Loss carry-forwards that can be carried forward for no more than 5 years were recognised in the amount of kEUR 154 (PY: kEUR 8,996); loss carry-forwards that can be carried forward for no more than 20 years were recognised in the amount of kEUR 1,973 (PY: kEUR 3,604).

As in the prior year, no deferred taxes were recognised for outside basis differences in financial year 2012 because most of the subsidiaries did not have net assets that would allow for dividend distributions as of the reporting date, or any such funds were intended for the purpose of internally funding the respective subsidiaries; outside basis differences of kEUR 2,787 were calculated as of 31 December 2012 (PY: EUR 3,241 thousand).

(11) EARNINGS PER SHARE

In accordance with IAS 33, the earnings per share are calculated from the consolidated profit after taxes and after non-controlling interests and from the average number of shares outstanding in the financial year 2012.

Basic earnings per share	**2012**	**2011**
Consolidated profit after taxes, in k€	– 37,591	– 86,375
Average number of shares outstanding (in units)	7,327,700	7,327,700
Basic earnings per share (in €)	**– 5.10**	**– 11.80**

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

Diluted earnings per share	**2012**	**2011**
Consolidated profit after taxes, in k€	– 37,591	– 86,375
Average number of shares outstanding	7,372,700	7,372,700
Correction for potentially diluting shares	0	0
Average number of shares outstanding (including potentially diluting shares)	7,372,700	7,372,700
Diluted earnings per share (in €)	**– 5.10**	**– 11.80**

As of 31 December 2012, the Group disposed of Authorised Capital after partial utilisation in the amount of kEUR 2,681 (PY: kEUR 2,681), which was not included in the calculations, however, because no diluting effect will arise from that fact in the current period.

The consolidated profit earned in 2012 has been added to the distributable profit as of 31 December 2012. The Executive Board of Phoenix Solar AG proposes that the company not distribute a dividend (PY: EUR 0.0 per share).

D. NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(12) INTANGIBLE ASSETS

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

Scheduled amortisation is presented in the income statement under the item of “Depreciation and amortisation.” In connection with the plan as of the reporting date to discontinue loss-making activities, impairments totalling kEUR 2,409 were recognised in intangible assets. The carrying amounts of the corresponding assets were written down to their value-in-use as of the reporting date. The impaired intangible assets consisted of the ERP system capitalised in the prior year, in the amount of kEUR 2,048, and IT software in the amount of kEUR 361.

Significant intangible assets k€	Carrying Amount as of 12/31/2012	Carrying Amount as of 12/31/2011	Remaining amortisation period
ERP software	347	3,2000	4 years
“Phoenix” Trademark	126	157	5 years
Development expenses	244	142	2 years

(13) GOODWILL

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

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

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

Goodwill k€	31/12/2012	31/12/2011
Power Plants	272	272
Components & Systems	0	235
Other	26	26
Total	**298**	**533**

In accordance with IFRS 3 in conjunction with IAS 38, goodwill items are not subjected to systematic amortisation. Instead, an annual impairment test is conducted to review the substantive value of goodwill. For that purpose, the carrying amount of the cash-generating unit is compared with its future income value. The future income value is calculated by application of the discounted cash flow method, based on current forecasts that are largely backed by external market development data, which are based on the three-year plan approved by the management and are also used for internal purposes. Key assumptions

on the basis of which the recoverable amounts are calculated by the management include forecasts of market volumes, market prices and availabilities of solar modules, inverters and other products related to the company's portfolio, as well as regulatory framework conditions, growth rates and capital costs. The future cash flows expected to be generated by the cash-generating unit according to the three-year plan are discounted to present value by application of a weighted average capital cost rate before taxes of 4.95 percent for the domestic company (PY: 3.93 percent) and to percent for the foreign companies (PY: 8.17 to 8.86 percent). For purposes of calculating a perpetual annuity, an unchanged growth factor of 1 percent was assumed. An impairment loss is deemed to have occurred when the future income value is less than the carrying amount.

In the financial year 2012, an impairment loss in the amount of kEUR 235 was charged against the goodwill recognised in connection with the first-time consolidation of the company Renewable Energies Development 2002 (RED 2002) S.r.l. As a result of this impairment, the carrying amount was reduced to the value-in-use. The goodwill items recognised as of the reporting date did not require impairment losses, even assuming that the revenues of one of the cash-generating units would be 5 percent less or that interest rates would be 10 percent higher. The Phoenix Group conducts the annual impairment test of goodwill on the level of the cash-generating units in the local currency in the fourth quarter of every financial year.

(14) PROPERTY, PLANT AND EQUIPMENT

For information on the development of carrying amounts, please refer to the Consolidated Statement of Changes in Noncurrent Assets (Note (15)). The Group opted not to present separately the acquisitions and disposals resulting from the change in the consolidation group because such transactions related to shell companies are immaterial for the presentation of the financial position of the entire Group.

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

In connection with the planned discontinuation of loss-making activities, impairments of kEUR 937 were recognised in items of property, plant and equipment. As a result of these impairments, the carrying amounts of the corresponding assets were reduced to their value-in-use as of the reporting date. The impaired items of property, plant and equipment consisted of leasehold improvements, office equipment and IT hardware in the amount of kEUR 709 and tools in the amount of kEUR 65.

In the financial year 2012, two photovoltaic plants completed in 2012 and originally intended for sale to third parties were transferred in the total amount of EUR 15,069 thousand from inventories to noncurrent assets, by virtue of an Executive Board resolution. The photovoltaic plants were built by Phoenix Solar AG for the project companies Horus s.r.l., Italy, and Batisolaire 3 SAS, Carpiquet, France. Before being transferred to noncurrent assets, the photovoltaic plants were capitalised by means of increasing the item of orders in progress by an amount of EUR 3,299 thousand. As of the reporting date, the remaining depreciation period for the photovoltaic plants was 19 years. The photovoltaic plants are presented within the item of plant and equipment held by the company in the Statement of Changes in Noncurrent Assets.

The unchanged depreciation periods for operational and office equipment range from 3 to 12 years; for leasehold improvements, depreciation periods of 11 to 15 years are applied, based on the economic useful lives or the shorter, contractually defined lease terms, plus any renewal options. Plant and equipment held by the company are depreciated over useful lives of 20 years.

(15) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in noncurrent assets within the phoenix group

	Acquisition or Production Cost					
2012 **k€**	**Balance 01/01**	**Transfer**	**Acquisition in the financial year**	**Disposal in the financial year**	**Currency Translation**	**Balance 31/12**
Internally generated intangible assets	223	– 114	0	0	0	109
Purchased intangible assets	6,264	114	307	6	0	6,679
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	0	15,069	0	0	0	15,069
Operational and office equipment	4,694	0	46	523	– 2	4,694
Leasehold improvements	1,284	0	0	0	0	1,284
Total noncurrent assets	**12,998**	**15,069**	**353**	**529**	**– 2**	**27,889**
2011 **k€**	**01.01.**					**31.12.**
Internally generated intangible assets	223	0	0	0	0	223
Purchased intangible assets	4,440	0	1,859	35	0	6,264
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	0	0	0	0	0	0
Operational and office equipment	3,945	0	859	117	7	4,694
Leasehold improvements	1,205	0	79	0	0	1,284
Total noncurrent assets	**10,346**	**0**	**2,797**	**152**	**7**	**12,998**

(16) SHARES IN ASSOCIATED COMPANIES

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

The carrying amounts showed the following development in the financial year 2012:

k€	2012	2011
Carrying amount at 01/01	395	418
+ Acquisition	0	0
– Disposal	0	0
– Dividends	0	– 51
+ Profit shares	2	27
Carrying amount at 31/12	**397**	**395**

Accumulated Amortisation and Depreciation								
Balance 01/01	Transfer	ordinary addition	extra-ordinary addition	Disposal in the finan-	Currency Translation	Balance 31/12	Carrying amounts 31/12/2012	Carrying amounts 31/12/2011
56	44	9	0	0	0	109	0	167
1,929	– 44	1,206	2,409	0	0	5,500	1,179	4,335
0	0	0	235	0	0	235	298	533
0	0	761	0	0	0	761	14,308	0
2,378	0	574	604	155	– 3	3,398	817	2,316
402	0	61	333	0	0	796	487	882
4,765	**0**	**2,611**	**3,581**	**155**	**– 3**	**10,799**	**17,089**	**8,233**
01/01				**31/12**			**31/12/2011**	**31/12/2010**
29	0	27	0	0	0	56	167	194
1,169	0	799	0	34	0	1,929	4,335	3,276
0	0	0	0	0	0	0	533	533
0	0	0	0	0	0	0	0	0
1,747	0	700	0	79	10	2,378	2,316	2,199
292	0	110	0	0	0	402	882	912
3,232	**0**	**1,636**	**0**	**113**	**10**	**4,765**	**8,233**	**7,114**

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

Aggregated financial information on the associated company k€	2012	2011
Assets	744	631
Liabilities	7	25
Revenues	165	189
Equity*	737	817
Total assets	745	846
Profit/loss for the year	**72**	**90**

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

(17) OTHER INVESTMENTS

The item of “other investments” includes the cooperative share in a bank and a 50-percent share in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, which was founded in the financial year 2007. In financial year 2012, that company had assets of kEUR 231 (PY: kEUR 1,856, liabilities of kEUR 231 (PY: kEUR 1,555), revenues of kEUR 0 (PY: kEUR 0) and a profit before taxes of kEUR – 357 (PY: kEUR 13). The 100 percent equity stake held by SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG in KALENTA Solar M.E.P.E. Greece, was sold in 2012. Due to the lack of an effective significant influence, the company is measured at acquisition cost. Due to the uncertainties inherent in the business model and the industry-specific regulations in Greece, the carrying amount of kEUR 160 (PY: kEUR 160) is basically equal to the fair value.

(18) NONCURRENT RECEIVABLES

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

This item also included security deposits in the amount of kEUR 47 (PY: kEUR 48). The security deposits bear interest at fair market rates of 1.5 percent p. a..

(19) INVENTORIES

The inventories break down as follows:

Inventories **k€**	**31/12/2012**	**31/12/2011**
Trading stock	23,283	65,093
Writedown	– 11,690	– 25,393
Net value of trading stock	**11,593**	**39,700**
Work in progress	0	16,021
Writedown	0	0
Net carrying amount	**0**	**16,211**
Amount presented in the statement of financial position	**11,593**	**55,911**

The trading stock inventory consisted mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering, which are usually held for less than one full financial year. Of the total trading stock, an amount of kEUR 539 (PY: kEUR 0) related to insured goods in transit.

Based on the estimation of the Executive Board that certain sales revenues will probably be lower than acquisition costs, such inventories were written down to the lower net realisable value less costs to sell. Inventories were written down to the lower net realisable value in the amount of kEUR 9,249 in financial year 2012. This figure includes kEUR 2,360 in write-downs due to the discontinuation of products.

In the fourth quarter of 2012, two photovoltaic plants were reclassified from inventories to non-current assets in the amount of kEUR 15,069, by virtue of the company's decision to operate them permanently in the future. Consequently, the change in work in progress in 2012 is not comparable with the change in this item presented within the item of inventories in the prior-year financial statements.

As of 31 December 2012, the carrying amount of trading stock measured at net realisable value less costs to sell amounted to kEUR 23,283 (PY: kEUR 65,09). The expenses of the corresponding writedowns amounted to kEUR 11,689 (PY: kEUR 25,393).

The carrying amount of inventories recognised as period expenses amounted to kEUR 117,436 (PY: kEUR 361,314).

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

(20) ADVANCE PAYMENTS RENDERED

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

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

As of the reporting date, gross receivables under long-term construction contracts amounted to kEUR 33,324 (PY: kEUR 99,436). Most of these receivables were related to projects in Bulgaria, Greece and Singapore. Contract revenues of kEUR 28,574 (PY: kEUR 90,424), contracts costs of kEUR 26,902 (PY: kEUR 81,809) and profits of kEUR 1,671 (PY: kEUR 8,615) were recognised. The profits included foreign currency effects in the amount of kEUR 4 (PY: kEUR 142). Furthermore, liabilities under long-term construction projects were recognised in the amount of kEUR 1,759 (PY: kEUR 1,749), mainly for a U.S. project. Losses of kEUR 188 (PY: kEUR 1,060) were recognised as expenses in respect of contracts that are expected to conclude with a negative profit margin.

Down payments of kEUR 31,613 (PY: kEUR 84,045) were collected on account of contracts and other down payments of kEUR 687 (PY: kEUR 3,205) were requested on account of contracts.

In consideration of the requested and recognisable down payments and partial invoices, the presented amount of kEUR 665 (PY: kEUR 14,995) breaks down as follows:

k€	31/12/2012	31/12/ 2011
Receivables under long-term construction contracts after deduction of partial invoices based on stage of completion	317	13,115
Plus requested and recognisable partial invoices	348	1,880
Amount presented in the statement of financial position	**665**	**14,995**

Payments in respect of receivables under long-term construction contracts are expected in the time periods presented in the table below. In this regard, it was assumed firstly that work under contracts in progress will be completed in time for every one of the planned work stages (so-called "milestones") stipulated in the payment agreements, and secondly that no significant delays will occur between the date of contractual fulfilment of the milestone conditions and the corresponding payment inflows. In that respect, the presentation differs from the presentation of delayed payment of trade receivables, for example (see Note (22)).

k€		Expected Receipt of Payment			
As of 31/12/2012	**Carrying amount**	**In fewer than als 30 days**	**Between 31 and 90 days**	**Between 91 and 360 days**	**In more than 360 days**
Receivables under long-term construction contracts	665	395	25	245	0
As of 31/12/2011					
Receivables under long-term construction contracts	14,995	1,010	520	13,465	0

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

(22) TRADE RECEIVABLES

The trade receivables break down as follows:

Trade receivables **T €**	**31/12/2012**	**31/12/2011**
Gross receivables	31,238	37,050
Less writedowns	– 4,994	– 5,453
Amount presenetd in the statement of financial position	**26,244**	**31,597**

The fair values of trade receivables are equal to their carrying amounts. Although the payment terms applied are determined on the basis of customer-specific credit ratings and regional practices relative to payment dates, writedowns charged against receivables that are expected to be uncollectible and writedowns charged on a portfolio basis were unavoidable.

In the table below, the maturity structure of receivables is presented without writedowns; in contrast to the presentation of receivables under long-term construction contracts (see Note (21)) the amounts presented in the table below were past due according to the respective payment terms by the length of time indicated therein for the receivables realised, but not yet subjected to writedowns at the reporting date:

k€	Not written down and due for payment at the reporting date					
As of 31/12/2012	Total	Neither written down nor due for payment	since fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	Since more than 360 days
Trade receivables	26,244	555	1,188	16,386	8,115	0
As of 31/12/2011						
Trade receivables	31,597	0	11,939	12,801	6,857	0

The writedowns charged against trade receivables attributable to the measurement category "Loans and Receivables" showed the following development in the financial year 2012:

k€	2012	2011
Writedowns at 01/01	5,453	2,682
Foreign exchange differences	0	0
Utilisation	– 476	– 78
Reversal	– 715	– 514
Addition	1,623	3,363
Writedowns at 31/12	**4,994**	**5,453**

The expenses for the complete charge-off of trade receivables and the income from the recovery of charged-off trade receivables are presented in the table below:

k€	2012	2011
Expenses for the charge-off of receivables	834	347
Income from recovery of charged-off receivables	**0**	**92**

Expenses for the charge-off of receivables are recognised at the time when the receivable is deemed to be definitively uncollectible. Final uncollectibility is assumed at the time when the Group attains knowledge of proportional satisfaction from a bankruptcy estate.

(23) OTHER FINANCIAL ASSETS

a) Noncurrent other financial assets

Phoenix Solar AG extended an interest-bearing loan of kEUR 1.047 (PY: kEUR 650) bearing interest at the rate of 6.5 percent until 30 September 2012 and maturing at the end of 2013 to the subsidiary SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. As of the reporting date, the loan was paid down to an amount of kEUR 257. Based on the fair market interest rate of 6.5 percent to remain in effect until 30 September 2012, Phoenix Solar AG collected interest income of kEUR 43 in financial year 2012 (PY: kEUR 38). Effective 1 October 2013, the interest rate was reduced to 0.0 percent, by virtue of an agreement concluded in December 2012.

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

b) Current other financial assets

The current other financial assets break down as follows:

Current other financial assets k€	31/12/2012	31/12/2011
Supplier credits	0	1,579
Other receivables	2,858	3,056
Advance payments	7,036	1,827
Debit balances in supplier accounts	792	4,028
Receivables under financial transfer operations	0	53
Other	138	86
Total	**10,824**	**10,629**

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

The current other receivables consisted mainly of security deposits related to the construction of photovoltaic plants, in the amount of kEUR 1,278 (PY: kEUR 0), and receivables due from a module supplier for replacement deliveries, in the amount of kEUR 841.

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

k€	Expected Receipt of Payment				
As of 31/12/2012	Carrying amount	In fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	In more 360 days
Financial assets	11,114	7,966	1,580	1,568	0
Due in one year or less	10,824	7,966	1,580	1,278	0
Due in more than one year	290	0	0	290	0
As of 31/12/2011					
Financial assets	11,436	4,250	3,314	3,839	33
Due in one year or less	10,629	4,250	3,314	3,065	0
Due in more than one year	807	0	0	774	33

(24) INFORMATION ON FINANCIAL INSTRUMENTS BY CATEGORY

In the table below, the carrying amounts and fair values of individual financial assets and liabilities are presented for each category of financial instruments.

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

* AfS: Available-for-Sale; LaR: Loans and Receivables; HfT: Held-for-Trading; AmC: Amortised Cost. For a description of measurement categories, please refer to Note 2 „Non-derivative financial instruments.“

[1] The fair value of this investment was measured at cost due to the lack of an active market and the limited activity of the company in which the investment is held.

2011 k€	Measurement category per IAS 39*	Carrying amounts	Carrying amounts within the scope of IFRS 7	Fair value
Other investments	AfS	160	160	160[1]
Noncurrent receivables	LaR	498	498	498
Other noncurrent financial assets	LaR	806	806	806
Receivables under long-term construction contracts	LaR	14,995	14,995	14,995
Trade receivables	LaR	31,597	31,597	31,597
Other current financial assets	LaR	10,629	10,629	10,629
Cash and cash equivalents	LaR	6,412	6,412	6,412
Total assets		**64,937**	**64,937**	**64,937**
Noncurrent financial liabilities	AmC	74	74	74
Current financial liabilities	AmC	24,726	24,726	24,726
Total financial liabilities		**24,800**	**24,800**	**24,800**
Liabilities under long-term construction contracts	AmC	1,749	1,749	1,749
Trade liabilities	AmC	24,531	24,531	24,531
Other financial liabilities	AmC	4,038	4,038	4,038
Total financial liabilities		**30,318**	**30,318**	**30,318**

* AfS: Available-for-Sale; LaR: Loans and Receivables; HfT: Held-for-Trading; AmC: Amortised Cost. For a description of measurement categories, please refer to Note 2 „Non-derivative financial instruments.“

[1] The fair value of this investment was measured at cost due to the lack of an active market and the limited activity of the company in which the investment is held.

The fair value of loans and receivables, held-to-maturity financial investments and non-derivative liabilities is calculated as the present value of future cash inflows or outflows. These cash flows are discounted to present value by application of an appropriate discount factor for the maturity in question, updated at the reporting date, with due consideration given to the counterparty’s credit rating. In those cases in which an exchange-listed price is available, that price is applied as the fair value.

Due to the mainly short-term maturity of trade receivables and payables, other receivables and liabilities, cash and cash equivalents, the carrying amounts at the reporting date are not significantly different from the fair values.

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

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

2012 k€	LaR	AmC	AfS	HfT	Gesamt
Interest income	226	0	0	0	226
Interest expenses	0	– 5,727	0	0	– 5,727
Changes in fair value	0	0	0	98	98
Expenses from impairment losses	0	0	0	0	0
Income from reversals of impairment losses	0	0	0	0	0
Gains on disposal	0	0	0	0	0
Losses on disposal	0	0	0	0	0
Net result	324	– 5,727	0	98	– 5.403

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

The amounts presented in the "Held-for-Trading" (HfT) column are composed almost exclusively of interest expenses and interest income from interest rate and interest rate-currency hedges, which are not part of an accounting hedge.

(25) OTHER NON-FINANCIAL ASSETS

The other non-financial assets in the amount of kEUR 11,584 (PY: kEUR 7,63) consisted mainly of foreign sales tax receivables in the amount of kEUR 9,029 (PY: kEUR 6,135).

(26) CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents k€	31/12/2012	31/12/2011
Cash on hand	2	28
Cash in banks	8,860	6,384
Total	**8,862**	**6,412**

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

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

The interest rates applicable to cash in banks in the financial year 2012 were between 0.1 percent and 0.4 percent (PY: 0.1 percent and 0.7 percent).

(27) EQUITY

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

As of 31 December 2012, the share capital amounted to kEUR 7,372.7 (PY: kEUR 7,372.7), divided into 7,372,700 (PY: 7,372,700) non-par bearer shares (common shares) and was fully paid-in at the reporting date for the consolidated financial statements.

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

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

a) in order to issue the new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock exchange price of the company's shares with the same features. However, this authorisation is subject to the condition that the shares to be issued by virtue of this authorisation under exclusion of the subscription right pursuant to Sections 203 (1), 186 (3) (4) of the German Stock Corporations Act do not exceed a proportional amount of share capital totalling ten percent of share capital, either at the time when it takes effect or (if the corresponding amount is less) at the time when this authorisation is exercised; the proportional amount of share capital attributable to shares that are sold during the term of this authorisation pursuant to Sections 71 (1) (8) (5), 186 (3) (4) of the German Stock Corporations Act, and the proportional amount of share capital attributable to shares that have been or will be issued to service warrant or conversion rights or to fulfil warrant or conversion obligations under bonds shall be applied to this maximum limit of 10 percent of share capital, provided that the corresponding bonds are issued during the term of this authorisation under exclusion of the subscription right, by analogous application of Section 186 (3) (4) of the German Stock Corporations Act;

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

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

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

The annual general meeting of 7 July 2006 resolved to introduce a stock option plan for members of the Executive Board, members of the senior management of Group companies and other selected senior managers and key employees of the company. A Conditional Capital of kEUR 553 was created for that purpose. By virtue of this authorisation, the Executive Board of Phoenix Solar AG established a stock option plan (“Stock Option Plan 2006”, also referred to as “SOP 2006”) on 10 September 2007. Under this plan, a total of 340,350 stock options were issued in 5 tranches to members of the Executive Board, members of the senior management of Group companies and key employees of the company as of the reporting date. Of that total, 232,250 stock options expired due to resignations and excercised 18,000. As of the reporting date, therefore, there remained 90,100 stock options, which can be exercised by the beneficiaries only if they are still employed by the company or a Group company and the employment relationship has not been validly terminated by either party on the exercise date. With the Annual General Meeting as of 14 July 2011 the stock option plan has been finished followed by a cancellation of the contingent capital accordingly.

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

The accumulated other comprehensive income underwent the following changes in financial year 2012:

k€	
Balance at 01/01/2012	– 17,787
Dividend distribution	0
Currency difference	34
Consolidated loss for 2012	– 37,283
Balance at 31/12/2012	**– 55,035**

The non-controlling interests in consolidated equity presented in the statement of financial position are related to the direct investments in Phoenix Solar Pte Ltd., Singapore, and Phoenix Solar L.L.C., Muscat, Oman, and the indirect investments in Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia, and Horus s.r.l..

DISCLOSURES CONCERNING CAPITAL MANAGEMENT

Capital management is handled centrally for the Phoenix Group by Phoenix Solar AG, at the main headquarters in Sulzemoos, for itself and the subsidiaries.

The principal objectives of the centralised capital management of Phoenix Solar AG are:

- Assuring the necessary capital base to finance the company's growth;
- Managing working capital as precisely as possible;
- Monitoring the equity base; and
- Assuring the company's status as a going concern.

The capital managed by this means is book equity.

As a consequence of these goals, one essential task of capital management in connection with the syndicated credit facility obtained in the financial year 2012 was to monitor compliance with the minimum equity and minimum EBITDA indicatorsagreed as covenants with the financing entities.

On 11 May 2012, the Group entered into a new financing package with a total volume of kEUR 132,002 and a term until 31 March 2014. It consists of cash credit facilities and guarantee credit facilities. An important element of the new financing package was a syndicated loan in the amount of kEUR 100,576. By reason of the company's decision to discontinue loss-making activities in 2013, it was agreed to extend the syndicated credit facility until 31 March 2015, for a total amount of kEUR 126,000. Also in this case, an important element of the financing package is a syndicated loan in the amount of kEUR 95,574.

(28) FINANCIAL LIABILITIES

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

Financial liabilities **k€**	**31/12/2012**	**31/12/2011**
Noncurrent financial liabilities (Due in more than one year)	10	74
Current financial liabilities (Due in one year or less)	39,543	24,726
Current financial liabilities (Due in one year or less)	**39,553**	**24,800**

The current financial liabilities are secured under the terms of a global assignment agreement for the receivables and inventories of Phoenix Solar Aktiengesellschaft and the pledging of interests in major subsidiaries of Phoenix Solar Aktiengesellschaft.

On account of the agreement amending the existing loan agreement concluded on 11 February 2013, the amounts owed to banks at the reporting date are classified as current liabilities.

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

k€	Zum Abschlussstichtag in folgenden Zeitbändern fällig				
As of 31/12/2012	Carrying amount	Fewer than 30 days	Between 31 and 90 days	Between 91 and 360 days	More than 360 days
Financial liabilities	39,553	4,541	35,002	0	0
As of 31/12/2011					
Financial liabilities	**24,800**	**7,726**	**17,039**	**18**	**17**

The noncurrent financial liabilities consist of the annuity loan of a bank, which has been divided up in proportion to the maturity structure of the repayment instalments. The interest rate for this loan is 4.6 percent per annum.

The loan is secured by rights in rem.

(29) PROVISIONS

The provisions break down as follows:

Noncurrent provisions k€	Balance at 01/01/2012	Reclassi-fication	Utilisation	Reversal	Com-pounding	Addition	Balance at 31/12/2012
Warranty provisions	1,581	– 445	0	– 125	87	205	1,303
Site restoration obligations	149	0	0	0	2	0	151
Other	722	0	– 146	– 360	0	2	218
Total	**2,452**	**– 455**	**– 146**	**– 485**	**89**	**207**	**1,672**

Current k€							
Warranty provisions	658	445	– 472	– 26	70	1,246	1,921
Litigation and arbitration costs	1,447	0	– 526	– 321	0	0	600
Provisions for onerous contracts	7,059	0	– 7,059	0	0	2,252	2,252
Other	697	0	– 543	– 153	0	17	18
Total	**9,861**	**445**	**– 8,600**	**– 500**	**70**	**3,515**	**4,791**

The warranty provision has been established to account for statutory and contractual warranty obligations and for accommodation payments to customers. Nearly 100 percent of noncurrent warranty provisions related to the project business have a term of up to 5 years.

The provisions for litigation and arbitration costs are composed of two kinds of costs: anticipated costs due to court proceedings against customers for unpaid invoices and claims asserted by customers as of the reporting date, which are at least partially unfounded from the Group's perspective. These items are always evaluated on the basis of the prospects for out-of-court settlements. As of the reporting date, the Management estimates a maximum additional cost for litigation and arbitration costs of 10 percent, at most; the period considered for that purpose is up to 3 years.

The other noncurrent provisions include, in particular, the provision for site restoration obligations and the provision for the obligation to archive business documents. The other current provisions have been established only to account for matters involving amounts of subordinated importance in individual cases. The terms of the provisions range from 9 to 20 years.

In connection with the new business strategy and the associated discontinuation of loss-making activities, provisions for onerous contracts were recognised in the amount of kEUR 2,188.

(30) TRADE PAYABLES

Trade payables are measured at the settlement amount. Due to the short-term payment terms of these liabilities, this amount is equal to the fair value of the corresponding liabilities.

All trade payables are due in less than one year.

(31) OTHER LIABILITIES

The other liabilities presented in the statement of financial position are sub-divided into financial and non-financial liabilities.

The non-financial liabilities include liabilities that are not based on contractual agreements between companies or that are not settled with cash or cash equivalents or financial assets.

The other financial liabilities break down as follows:

Other financial liabilities **k€**	**31/12/2012**	**31/12/2011**
Deferred sales commissions	182	942
Purchase price obligations	0	812
Deferred revenues	0	433
Commitments to former shareholders	419	313
Credit balances in customer accounts	206	527
Purchase price down payments for project companies	1,845	0
Other	1,009	1,011
Total	**3,697**	**4,038**

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

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

Other non-financial liabilities k€	31/12/2012	31/12/2011
Sales tax liabilities	1,590	3,982
Liabilities under wage tax and social security	345	557
Personnel-related liabilities	2,513	5,803
Liabilities under advance payments received	1,068	3,180
Other	34	241
Total	**5,550**	**13,763**

The personnel-related liabilities pertain to the following matters:

Personnel-related liabilities k€	31/12/2012	31/12/2011
Liabilities under current employment contracts	137	15
Liabilities under bonus commitments	1,417	2,975
Liabilities for overtime and/or vacation claims	640	1,112
Liabilities for severance payments	100	1,463
Other	219	238
Total	**2,513**	**5,803**

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(32) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The equity of the Phoenix Group is divided into subscribed capital, additional paid-in capital reserves and accumulated other comprehensive income.

Detailed information on the fully paid-up share capital of Phoenix Solar AG and on transactions recognised in additional paid-in capital, as well as detailed information on significant transactions that are not directly reflected in the respective line item of the consolidated statement of changes in equity, can be found in Note (27) Equity.

Generally speaking, the accumulated other comprehensive income represents the earned equity of the Group. It is composed of the prior-period profits and losses of the companies included in the consolidated financial statements, to the extent they were not distributed in the form of dividends, and the differences arising from the currency translation of the separate financial statements of foreign subsidiaries, in the amount of kEUR 34 (PY: kEUR 348). No income taxes were incurred in respect of other comprehensive income/expenses (PY: kEUR 0).

(33) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement presents the changes in the cash and cash equivalents of the Phoenix Solar Group that occurred during the reporting period as a result of cash inflows and outflows. In accordance with IAS 7, cash flows are divided into the cash flow from operating activities, the cash flow from investing activities and the cash flow from financing activities. In case of changes in the group of consolidated companies resulting from the acquisition or sale of companies, the purchase price paid (excluding liabilities assumed), less the cash and cash equivalents acquired or sold, are recognised as cash flows from investing activities. The other accounting effects of the acquisition or sale are eliminated in the respective line items of the three different groups of cash flows.

The cash flow from operating activities is calculated by means of the indirect method. Thus, the cash flow from operating activities is adding deducting non-cash items and changes in current assets and liabilities, as well as interest and tax payments, to the consolidated profit or loss before taxes. Interest and tax payments are then applied to arrive at the cash flow from operating activities.

Significant positive effects on the cash flow from operating activities resulted from the decrease in inventories (kEUR 19,999) and the work in connection with the project business (kEUR 14,330). Furthermore, non-cash writedowns on inventories in the amount of kEUR 9,249 were also added to this figure. Negative effects on the cash flow from operating activities resulted from the payments made as of the reporting date to settle liabilities to suppliers of trading stock and purchased services, in the amount of kEUR 15,275, and from the payments made to finance operating activities, in the amount of kEUR 2,964.

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

The cash flow from investing activities was influenced mainly by acquisitions of noncurrent assets. Detailed information on capital expenditures can be found in Notes (12) and (14).

The company financed its operating activities in the financial year 2012 by means of drawdowns under the syndicated working capital credit facility (see Notes (28) and (39)).

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all the cash and cash equivalents presented in the statement of financial position, i.e., cash on hand and cash in banks, to the extent they will be available within three months (see Note (26)). The cash and cash equivalents are not subject to restrictions on disposal.

Significant non-cash transactions include changes in the measured value of inventories, in the amount of kEUR 9,249 (PY: kEUR 21,706), personnel expenses related to the stock option plan in the amount of kEUR 54 (PY: kEUR 936), appropriations to writedowns or impairments of receivables in the amount of kEUR 1,162 (PY: kEUR 2,939).

F. OTHER DISCLOSURES

(34) SEGMENT REPORT OPERATING SEGMENTS

The Group Executive Board is the responsible governing body that makes decisions about the allocation of resources to the operating segments of the Phoenix Group and assesses their performance. In accordance with the principles of the Management Approach, the Management Information System (MIS) of the Group Executive Board forms the basis for identifying the relevant operating segments. The MIS is based on the recognition and measurement regulations of the IASB, both originally and with respect to the data of the operating performance parameters of each operating segment. The relevant managerial indicators for each operating segment include revenues, earnings before interest and taxes, corrected for the income or expenses of associated companies (segment profit or loss).

The Group is managed via the two operating segments Power Plants and Components & Systems. The principal activities are sub-divided as follows:

- Power Plants: Planning, distribution, construction and maintenance of photovoltaic plants, as well as operation & maintenance (O&M) services;
- Components & Systems: Distribution of trading stock.

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

The breakdown of the other indicators to be segmented by principal activities is conducted with regard to the Power Plants and Components & Systems segments through the application of a distribution key that is derived from revenues or total operating performance in a fundamentally uniform manner. Whenever a cost allocation based on the specific cost of goods sold is required, a key is applied on the basis of the materials and work used in the cost of goods sold.

The segment information for these operating segments is presented below:

Financial Year 2012 k€	Power Plants	Components and systems	Other	Consoli-dation	Group
Segment profit or loss statement					
External revenues	82,976	72,453	0	0	155,430
Revenues between the segments	0	0	0	0	0
Segment revenues	**82,976**	**72,453**	**0**	**0**	**155,430**
Segment profit or loss	– 22,039	–9,801	0	0	0
Income from associated companies	50	0	0	0	50
EBIT					– 31,790
Financial result					– 5,501
Consolidated profit/loss before taxes					– 37,591
Income tax expenses					300
Consolidated profit/loss					**– 37,591**
– Thereof attributable to non-controlling interests					308
– Thereof attributable to majority shareholders					– 37,283
Other information					
Capital expenditures	192	161	0	0	353
Depreciation and amortisation	3,062	2,895	0	0	5,957
Non-cash expenses	4,766	10,875	0	0	15,641
Non-cash income	2,444	627	0	0	3,071
Assets					
Segment assets	42,115	35,345	23	0	77,482
Shares in associated companies	397	0	0	0	397
Non-assigned assets					14,773
Consolidated assets	**42,512**	**35,345**	**23**	**0**	**92,652**

Financial Year 2012 k€	Power Plants	Components and systems	Other	Consoli-dation	Group
Segment profit or loss statement					
External revenues	152,470	240,970	44	0	393,484
Revenues between the segments	0	0	0	0	0
Segment revenues	**152,470**	**240,970**	**44**	**0**	**393,484**
Segment profit or loss	– 30,166	– 54,635	94	0	– 84,707
Income from associated companies	27	0	0	0	27
EBIT					– 84,680
Financial result					– 4,217
Consolidated profit/loss before taxes					– 88,897
Income tax expenses					2,522
Consolidated profit/loss					**– 86,375**
– Thereof attributable to non-controlling interests					632
– Thereof attributable to majority shareholders					– 87,007
Other information					
Capital expenditures	1,081	1,716	0	0	2,797
Depreciation and amortisation	639	997	0	0	1,636
Non-cash expenses	9,045	17,222	0	0	26,267
Non-cash income	2,790	1,215	0	0	4,005
Assets					
Segment assets	36,969	75,236	0	0	112,205
Shares in associated companies	395	0	0	0	395
Non-assigned assets					31,303
Consolidated assets					**143,903**

The revenues of the Power Plants segment derive mainly from project-related work, so that project revenues as of the reporting date included both finally invoiced projects and on-going projects, the revenues of which were recognised on a period accrual basis by application of the percentage-of-completion method according to IAS 11. These revenues amounted to kEUR 28,574 as of the reporting date (PY: kEUR 90,424). By reason of the business model and the goods and services offered on that basis, intersegment revenues are excluded, as a general rule. In view of the current customer portfolio, a concentration of revenues with one or few customers is likewise somewhat limited; the same can be said of the procurement side.

Segment assets are defined as the sum of noncurrent and current assets, less shares in associated companies, as well as income tax assets and interest-bearing receivables. Segment liabilities are currently not included in the MIS and are not used by the Executive Board for managing the operating segments.

Non-cash income includes income from the reversal of provisions, liabilities and writedowns and changes in the fair value of options; non-cash expenses include the recognition of writedowns and the charge-off of receivables.

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

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

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

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

k€	**2012**	**2011**
Germany	46,428	168,490
EU excluding Germany	69,799	187,747
USA	23,228	2,975
Asia	15,975	34,272
Total	**155,430**	**393,484**

Noncurrent assets were divided among the regions as follows:

k€	**31/12/2012**	**31/12/2011**
Germany	1,859	9,074
EU excluding Germany	15,291	335
USA	1,002	24
Asia	48	91
Total	**18,200**	**9,524**

(35) DISCLOSURES CONCERNING DEALINGS WITH RELATED PARTIES

In accordance with IAS 24, related parties of the Phoenix Group are defined as persons or companies that control or exert significant influence on the Phoenix Group, or whom the Phoenix Group controls or over whom it exerts significant influence.

In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of full consolidation, for which no disclosures need to be made, the Group maintained the following business relationships with related parties:

An interest-bearing loan of kEUR 1,047 (PY: kEUR 650) maturing at the end of 2013 was extended to the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, in which the Group had purchased an equity investment in financial year 2007. As of the reporting date, the loan amount excluding interest was kEUR 97 (PY: kEUR 642). Based on the fair market interest rate of 6.5 percent, Phoenix Solar AG collected interest income of kEUR 43 (PY: kEUR 32) in financial year 2012. As of 01. October 2012 the parties have agreed an interest rate of 0,0 percent.

Disclosures concerning shareholdings of directors and officers:

Executive Board	31/12/2012 No. of Shares	31/12/2011 No. of Shares
Dr. Andreas Hänel (resigned 28/02/2013)	266,380	231,200
Dr. Bernd Köhler (appointed 01/12/2011)	0	0
Dr. Murray Cameron	69,750	69,750
Ulrich Reidenbach (resigned 31/01/2012)		216
Total holdings of Executive Board members	**336,130**	**301,356**

In connection with the Stock Option Plan 2006, the following stock options were granted to the Supervisory Board:

Supervisory Board	3/.1/.2012 No. of Shares	31/12/011 No. of Shares
J. Michael Fischl	0	0
Prof. Dr. Klaus Höfle (resigned 28/06/2012)	0	1,575
Dr. Patrick Schweisthal (resigned 28/06/2012)	0	–
Prof. Dr. Thomas Zinser	0	–
Oliver Gosemann	20,367	300
Dr. Thorsten Hass (resigned 21/06/2012)	0	400
Total holdings of Supervisory Board members	**20,367**	**2,275**

In connection with the Stock Option Plan 2006, the following stock options were granted to the Executive Board:

In financial year 2007, 4,500 stock options were granted to every member of the Executive Board; the fair value of each such stock option at the reporting date was EUR 10.177. In the financial year 2008 and 2009, another 9,000 stock options were granted to every Executive Board member in active service at the grant date; the fair value of each such stock option at the grant date was EUR 20.174 or EUR 17.972. In the financial year 2010, additional stock options were again granted to every Executive Board member in active service at the grant date; the fair value of each such stock option at the grant date was EUR 13.912.

In addition, the compensation granted to members of the Executive Board and Supervisory Board represents transactions with related parties. Detailed information on this subject is provided in Notes (42) and (43), respectively.

(36) GUARANTEES AND OTHER COMMITMENTS

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

(37) CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets or liabilities.

(38) OTHER FINANCIAL COMMITMENTS

The Group had total financial commitments of kEUR 6,216 (PY: kEUR 6,324) under various rental and lease agreements. Of this total, an amount of kEUR 1,687 (PY: kEUR 1,521) was due in less than one year, kEUR 2,601 (PY: kEUR 2,590) between one and 5 years and kEUR 1,928 (PY: kEUR 2,213) in more than 5 years. Some real estate leases were concluded with renewal options of 5 years; the exercise of such options must be declared at the end of 2013 at the latest.

As of the reporting date, the Group had firm order commitments under several purchasing agreements in the total amount of kEUR 10,837 (PY: kEUR 18,644). The firm orders for noncurrent assets amounted to kEUR 44 (PY: kEUR 55).

Commitments under long-term purchasing agreements with suppliers totalled kEUR 888 as of the reporting date.

(39) RISK MANAGEMENT SYSTEM

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

The objective of financial risk management is to limit this risk by means of on-going operational and financial activities. To that end, selected derivative hedging instruments are used, depending on the assessment of the risk in question. As a general rule, however, only those risks that could have effects on the Group's cash flow are hedged. Derivative financial instruments are employed exclusively for hedging purposes; thus, they are not used for trading or other speculative purposes.

The basic principles of financial policy are adopted annually by the Executive Board and monitored by the Supervisory Board. The implementation of the financial policy and the corresponding risk management are the responsibility of the Treasury Department. Certain transactions require the advance approval of the Executive Board, which is also informed about the scope and amount of the current risk level on a regular basis.

CURRENCY RISK AND INTEREST RATE RISK

Due to the fact that the business of the Phoenix Group is geared to international markets and their growing importance, the company is exposed to currency risks. Therefore, the Treasury Department considers

the effective management of exchange rate risk to be one of its principal tasks and fulfils that task by means of an actively managed exchange rate hedging strategy.

Foreign currency risks are hedged to the extent that they influence the Group's cash flows. On the other hand, foreign currency risks that do not influence the Group's cash flows (i.e. risks resulting from the translation of assets and liabilities of foreign corporate entities to the Group's reporting currency) are not hedged, as a general rule.

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

To limit or eliminate such risks, derivatives are employed as hedging instruments. As a general rule, the Group employs forward exchange deals, swaps and currency options to hedge payments in advance that will be made or received in the following financial year. As of the reporting date 31 December 2012, the Group disposed of forward exchange deals with a volume of kEUR 5,250 (PY: kEUR 0).

Accordingly, Phoenix Solar AG is exposed to market price risks in relation to certain currency derivatives, which are used to hedge underlying transactions and budgeted items. Exchange rate changes in the currencies underlying such financial instruments are recognised in other operating income or expenses (measurement result from the adjustment of financial assets to fair value). If the EUR had risen or fallen by 10 percent against all currencies as of 31 December 2012, the other operating income or expenses and the fair value of hedging transactions would have been higher by kEUR 0 or lower by kEUR 0, respectively (31 December 2011: higher by kEUR 0 or lower by kEUR 0, respectively). The hypothetical profit effect results from the currency sensitivities of the euro to the Japanese yen and of the EUR to the U.S. dollar.

Monetary financial instruments (cash and cash equivalents, receivables, non-interest-bearing liabilities) are denominated directly in the functional currency in most cases. Therefore, exchange rate changes have no effect on the Group's profit or equity. Interest income and interest expenses from financial instruments are likewise recognised directly in the functional currency. Therefore, any changes in that respect also have no effect on the managed values.

Furthermore, the company has instituted an interest rate management programme, which became more important in the past financial year as a result of the variable syndicated loan financing. Although the business model and the resulting liabilities and equity items are currently subject only to minor interest rate risks, the Group realised the necessity of instituting active interest rate hedging in this area. As vehicles for managing the interest burden, the Group employed both interest rate swaps and interest rate caps to adequately counter any potential increase in interest rates. Interest rate changes affecting the interest differences underlying such financial instruments will have an effect on the Group's financial result. If the level of interest rates would have increased or decreased by 100 basis points compared to all interest rate hedging transactions as of 31 December 2011, the financial result and the fair value of hedging instruments would have been higher by kEUR 8 or lower by kEUR 6, respectively (31 December 2010: higher by kEUR 10 or lower by kEUR 0, respectively).

DEFAULT RISK

The Phoenix Group attaches great importance to the risk of default on receivables. The methods employed to manage this risk are targeted to the creditworthiness of contractual partners, in that the Group attempts to assess their creditworthiness and to limit or prevent losses on receivables on this basis. International credit agencies are consulted to ensure the objective evaluation of contract partners. The creditworthiness of contract partners is verified at regular intervals of time; in the event of deteriorated creditworthi-

ness, the contractual terms and conditions are adjusted accordingly. The measures initiated in such cases include the reduction of credit limits granted to customers or the requirement that customers provide advance payments or alternative security such as bank guarantees, escrow accounts, etc. In addition, the Group engages in active receivables management to closely monitor the market behaviour of contract partners and to issue a warning when the payment behaviour of a given contract partner worsens.

The Group is exposed to default risk primarily in connection with its trade receivables. The amounts presented in the statement of financial position are net of writedowns for tentatively uncollectible receivables; such writedowns have been estimated by the Group's Management on the basis of past experience values and the current economic environment.

Default risk is limited with respect to cash equivalents because such instruments are held with banks to which international rating agencies have issued high credit ratings.

There is no significant concentration of default risks within the Group because the risks are distributed among a large number of counterparties and customers.

The maximum default risk is reflected in the carrying amounts of the financial assets presented in the statement of financial position (including derivative financial instruments with positive market values). As of the reporting date, there were no significant agreements that would reduce the maximum default risk (e.g. set-off agreements).

LIQUIDITY RISK

To avoid liquidity risk within the Phoenix Group, which is defined as an inability of the Group to fulfil existing payment obligations with respect to the amounts and temporal structure without restriction and/or on time, the Group prepares a cash flow forecast on the basis of a three-year business plan approved by the Management. Corporate Treasury compares the expected future cash flows with the rolling weekly forecast of the Group's liquidity situation. By that means, financial risks can be detected at an early stage and measures can be taken relative to financing and investment requirements (dispositive liquidity risk management).

The financing package consisting of cash credit facilities and guarantee credit facilities in the total amount of kEUR 126,000, which is now in effect until 31 March 2015, includes a syndicated credit facility in the amount of kEUR 95,574.

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

(40) SHARE-BASED PAYMENT FORMS

The annual general meeting of 7 July 2006 adopted a Stock Option Plan for members of the Executive Board, members of the management of the Group companies and selected executives and other key personnel of the company. To that end, a Conditional Capital of kEUR 552 was created.

By virtue of this authorisation, the Executive Board of Phoenix Solar AG established a Stock Option Plan on 10 September 2007 ("Stock Option Plan 2006"; SOP 2006 as an abbreviation for Stock Option Plan 2006), under which a total of 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 232,250 of those stock options had expired due to resignations

and 18,000 had been exercised. As of the reporting date, therefore, there remained 90,100 stock options, which can be exercised by the beneficiaries only if the beneficiary will be employed by the company or a Group company and the employment relationship will not have been cancelled by either party with valid effect at the time of exercising the stock options.

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

T €	SOP 2006 (2011)	SOP 2006 (2010)	SOP 2006 (2009)	SOP 2006 (2008)
Issue date:	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Valuation date	06/05/2011	07/09/2011	08/09/2010	10/09/2008
Stock exchange price of the company's share at the valuation date:	19.52 €	28.70 €	36.40 €	43.46 €
Vesting period:	2 years	2 years	2 years	2 years
Stock option life (including vesting period):	7 years	7 years	7 years	7 years
Exercise price:	20.44 €	28.75 €	35.11 €	46.39 €
Risk-free interest rate:	2.11 %	0.87 %	2.95 %	4.04 %
Volatility:	57.75 %	63.82 %	64.83 %	61.35 %
Annual dividend per share:	0.30 €	0.20 €	0.25 €	0.20 €

Due date of dividends (assumption):	ca. June
No. of simulations conducted:	10,000,000

- **Exercise strategies:** The strategy of earliest possible exercise was assumed for Tranches I to III. Based on the experience made with the initial exercise, a tripartite strategy was assumed for Tranche IV and V, thus 1. Earliest possible exercise, 2. Earliest possible exercise after 2.5 years at the earliest, 3. Earliest possible exercise after 3 years at the earliest. The weighting applied for determining the percentage of stock options to which each strategy should be applied for measurement purposes is based on the experience made; thus, 67 percent according to Strategy 1, 11 percent according to Strategy 2 and 22 percent according to Strategy 3. In addition, an employee turnover rate of 5 percent was applied.
- **Lock-up period:** During the exercise period, stock options may not be exercised during a period of 14 calendar days prior to the date of publication of quarterly reports and during the period from the close of the fiscal year to the end of the date of publication of the financial results of the preceding financial year.
- **Exercise hurdles:** The stock options can be exercised by the beneficiary only when the closing price of the share of Phoenix Solar AG in the Xetra trading system of the Frankfurt am Main Stock Exchange (or a comparable successor system) exceeds the exercise price at the time of exercising the stock option by 40 percent for 10 consecutive trading days in the first year of the exercise period. This percentage increases by 20 percentage points per year in each of the following years.

The volatility was calculated as the historical volatility on the basis of the share price performance in the periods from 19 November 2004 to 13 July 2007 (Tranche I), from 1 July 2005 to 12 September 2008 (Tranche II), from 1 July 2006 to 5 October 2010 (Tranche III), from 1 July 2007 to 4 October 2011 (Tranche IV) and from 9 May 2011 (Tranche V). The expected volatility is based on the average of the historical volatilities.

The risk-free interest rate was calculated with the aid of the Svensson method. Based on this calculation method, the value of each stock option was determined to be EUR 10.177 (Tranche I), EUR 20.174 (Tranche II), EUR 17.972 (Tranche III) and the weighted value of each stock option was determined to be EUR 13.912 (Tranche IV) and EUR 8.323 (Tranche V) at the grant date.

The stock options showed the following development in the financial year 2012:

	Tranche IV SOP 2006 (2011)	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Stock options at 01/01/2011		126,000	72,000	58,500	9,000	265,500
Granted in 2011	9,500	0	0	0	0	9,500
Exercised in 2011				0	– 1,800	– 1,800
Expired during the term in 2011		– 24,600	– 9,000	– 17,500	0	– 51,100
Stock options at 31/12/2011 – 01/01/2012	**9,500**	**101,400**	**63,000**	**41,000**	**9,000**	**223,900**
Granted in 2012	9,500	0	0	0	0	9,500
Exercised in 2012			0	0	0	0
Expired during the term in 2011	– 6,500	– 79,300	– 37,000	– 20,000	0	– 142,800
Stock options at 31/12/2012	**3,000**	**22,100**	**26,000**	**30,000**	**9,000**	**90,100**

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

The expense of share-based payment forms in the financial year 2012 was kEUR 54 (PY: kEUR 936), due to the fact that the expense is distributed over the period from the issue date to the expiration of the vesting period.

All stock options were settled by way of issuing equity instruments.

(41) EVENTS AFTER THE REPORTING DATE

DISCONTINUATION OF LOSS-MAKING ACTIVITIES

On 11 February 2013, Phoenix Solar AG published an ad-hoc announcement stating its intention to focus on the international business and on developing new business models and to discontinue loss-making activities.

Such activities include the trading and project business that has previously been managed from Germany, which will be discontinued in its present form. In addition to the trading and project activities of the international subsidiaries, the Group will continue to operate the profitable business of operating and maintaining solar power plants from its location in Ulm. Furthermore, it will focus on developing new business models for the project and trading business.

EXTENSION AND MODIFICATION OF THE PREVIOUS GROUP FINANCING PACKAGE

Group financing will still be assured by way of Phoenix Solar AG, as before. The modified business strategy, the purpose of which is to return the company quickly to a course of profitable growth, was intensively discussed and coordinated with the financing banks. The company signed an agreement amending the existing loan agreement on 11 February 2013. In this connection, the total financing amount was reduced slightly to approximately EUR 126 million. The term of the financing package was extended ahead of schedule by one more year, from previously 31 March 2014 to 31 March 2015.

RESIGNATION OF THE CHIEF EXECUTIVE OFFICER

Also on 11 February 2013, Dr. Andreas Hänel, the founding Executive Board member of Phoenix Solar AG, resigned from his Executive Board position prior to the end of his term, effective 28 February 2013. The Supervisory Board of Phoenix Solar AG regretfully acknowledged his resignation. It thanked Dr. Hänel for his many years of successful service as the Chief Executive Officer, who brought Phoenix Solar AG into the TecDAX in 2008. Also during the difficult restructuring phase, Dr. Hänel led the company with impassioned dedication. He will continue to advise the company as needed. On the same date, the Supervisory Board appointed Dr. Bernd Köhler as the Chief Executive Officer, effective 1 March 2013. Dr. Köhler will also continue to perform the role of Chief Financial Officer. Dr. Murray Cameron will retain his positions of Chief Operating Officer and CEO & President of the U.S. subsidiary.

These changes in the company's strategic orientation entailed non-recurring expenses, particularly in the form of impairment losses and provisions, in the amount of roughly EUR 8 million, which were recognised in the consolidated financial statements for 2012. Other non-recurring expenses related to these measures, in the amount of roughly EUR 2 million, will burden the company's results in the financial year 2013.

G. SUPPLEMENTARY DISCLOSURE OBLIGATIONS PERSUANT TO THE GERMAN COMMERCIAL CODE (HGB)

(42) EXECUTIVE BOARD OF THE PARENT COMPANY

- Dr. Andreas Hänel, Diplom-Ingenieur, Sulzemoos (Chief Executive Officer, resigned from this position effective 28 February 2013)
- Dr. Bernd Köhler, Diplom-Volkswirt, Ubstadt-Weiher (Chief Financial Officer; Chief Executive Officer as of 01 March 2013)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Chief Operating Officer)
- Ulrich Reidenbach, Diplom-Ingenieur, Munich (Chief Sales Officer; resigned as of 31 January 2012)

All members of the Executive Board are authorised to represent the company individually.

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

- Dr. Andreas Hänel is a member of the Executive Board of Phoenix Solar Incorporation, USA, and of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore. (Resigned on 28 February 2013).
- Murray Cameron is the Chairman of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, and CEO and President of Phoenix Solar Inc., USA.
- Ulrich Reidenbach was a member of the Executive Board of Phoenix Solar Incorporated, USA, and a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, until 31 December 2011. (Resigned as of 31 March 2012).

The compensation granted to the Executive Board in the financial year 2012 amounted to kEUR 872 (PY: kEUR 974).

This compensation was divided up as follows:

k€	Components not dependent on success		Components dependent on success		Components with a long-term incentive effect		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Dr. Andreas Hänel	218	255	36	42	0	0	254	297
Dr. Bernd Köhler	191	16	153	4	65	5	409	25
Dr. Murray Cameron	139	157	39	33	0	0	178	190
Sabine Kauper	0	166	0	32	0	0	0	198
Ulrich Reidenbach	25	210	6	27	0	0	31	237
Total	**573**	**804**	**234**	**138**	**65**	**5**	**872**	**947**

Compensation components that are not dependent on success include a monthly base salary, the provision of a company car conformant with the Company Car Guideline, which can also be used for private purposes, and the assumption of a premium for an accident insurance policy that primarily covers accidents on the job, but also covers liability in the private sphere.

In connection with the implementation of the German Executive Board Compensation Act, the company revised the rules applicable to success-dependent compensation components in 2011. As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals is applied. To ensure that the compensation system is appropriately geared to long-term success, long-term incentives were installed in the form of an EBIT hurdle for the quantitative goals and a bonus index system based on a multiplier concept. The EBIT hurdle protects the interests of investors by stipulating that a bonus will be paid only if the adjusted EBIT is appropriate relative to the total compensation costs of the Executive Board and Supervisory Board. The bonus index is applied to calculate the recommended disbursement levels of target bonuses on the basis of the indexed operating performance of exchange-listed companies and their principal business segments. As a result, earned bonuses are paid on two different due dates. The first instalment is paid in the first half of the subsequent year and the second instalment is usually paid in the first half of the year following the subsequent year, provided that the EBIT hurdle is met in the subsequent financial year; if the EBIT hurdle is not met, the second instalment can be carried forward by one year, but will be forfeited in the second subsequent year if the EBIT hurdle is not met in the following year.

The components with a long-term incentive effect consisted of contributions to a defined contribution pension plan.

No change-of-control clauses are currently in effect for any one of the Executive Board members.

(43) SUPERVISORY BOARD OF THE PARENT COMPANY

- Michael Fischl, Dipl.-Kfm., Abensberg (Chairman), Head of Internal Audit of Sparkasse Ingolstadt
- Prof. Dr. Klaus Höfle, Giengen, Dipl.-Wirtschaftspädagoge, Chief Executive Officer of stairconsult | Prozessberatung and associate lecturer at three universities, until 30 June 2012
- Dr. Patrick Schweisthal (Vice Chairman), Rohrbach, lawyer, until 30 June 2012
- Prof. Dr. Thomas Zinser, Hohenschäftlarn, (Vice Chairman as of 21 June 2012), tax advisor with Kanzlei Ebner Stolz Mönning Bachem and professor at Landshut University in the Department of Taxes, Accounting and General Business Administration
- Oliver Gosemann, Managing Director of GOSFAM Investments GmbH, Forst (since 16 June 2010)
- Dr. Torsten Hass, independent management consultant (since 16 June 2010), until 21 June 2012

The total compensation of the Supervisory Board members in the financial year 2012 amounted to kEUR 196 (PY: kEUR 389).

This amount was divided up as follows:

k€	Components not dependent on success		Components dependent on success		Components with a long-term incentive effect		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
J. Michael Fischl	63	91	0	15	0	0	63	106
Prof. Dr. Klaus Höfle resigned 30/06/2012	18	38	0	5	0	0	18	43
Dr. Patrick Schweisthal (resigned 30/06/2012)	23	57	0	8	0	0	23	65
Prof. Dr. Thomas Zinser	45	71	0	10	0	0	45	81
Oliver Gosemann	30	45	0	5	0	0	30	50
Dr. Torsten Hass (resigned 30/06/2012)	17	39	0	5	0	0	17	44
Total	**196**	**341**	**0**	**48**	**0**	**0**	**196**	**389**

(44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The professional fee paid to the auditing firm in the financial year 2012 and recognised as an expense in 2012 was divided up as follows:

k€	2012	2011
a) Services related to the audit of financial statements	260	285
b) Other certification services	42	114
c) Tax advisory services	0	0
d) Other services	56	132
Total	**359**	**531**

The other certification services related mainly to the critical review of the semi-annual financial statements and other review activities related to the interim financial statements.

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

The Executive Board and Supervisory Board have issued a Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporations Act (AktG) and made it permanently available to shareholders at the company's website (http://www.phoenixsolar.de/InvestorRelations/Mitteilungen/Corporate_Governance/).

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

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 27 March 2012

Phoenix Solar Aktiengesellschaft

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

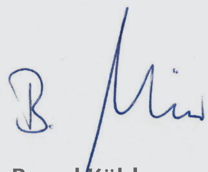
Dr. Murray Cameron
Dipl.-Physiker
Garching
(Chief Operating Officer)

This page is intentionally left blank.

AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

To the best of our knowledge, we hereby affirm that, pursuant to the generally accepted accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, financial position and the results of operations of Phoenix Solar AG, and that the GROUP MANAGEMENT REPORT gives a true and fair reflection of the development of the Phoenix Group's business, including its performance and situation, as well as describing the material risks and opportunities inherent in the prospective development of the Group.

Sulzemoos, 27 March 2012
Phoenix Solar Aktiengesellschaft
The Executive Board



Dr. Bernd Köhler
(Chief Executive Officer)

Dr. Murray Cameron
(Chief Operating Officer)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the group management report for the business year from 1 January 2011 to 31 December 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code are the responsibility of the Parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Article 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company´s Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

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

Munich, 27 March 2013

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Henning Hönsch	Dietmar Eglauer
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

ADDITIONAL INFORMATION

Photovoltaic glossary 139
Editorials and contact 142
Financial calendar 143
Group structure 144

PHOTOVOLTAIC GLOSSARY

• • Accumulator
An accumulator stores electrical energy. In photovoltaics, 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. The EPC contractor undertakes to deliver a turnkey plant or building to the client.

• • 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.

• • 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 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 10 hours.

• • Megawatt (MW)
A megawatt is a unit of measurement for output, and is equivalent to one million (W). For example, the new solar power plant situated near the Volkswagen factory in Chattanooga, Tennessee, has a peak output of 9.5 megawatts.

• • 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 sales is ultra-pure silicon which is extracted from silicon smelt and manufactured into wafers of up to 12 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.

• • 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.

• • Own-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.

• • 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 photovoltaics has recorded high growth rates in renewable energies in recent years.

• • 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
Photovoltaics 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 multicrystalline) 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.

• • Solar modules
A solar module is made up of the number of solar cells which are electrically connected in series and which, after application of current connectors, are processed to form a module. The generally square solar cells are applied to a substrate, covered by a glass plate and laminated to protect them against weather exposure. A frame is often attached for the purpose of simplifying assembly. Solar modules customary in the market are generally made from mono- or polycrystalline solar cells or thin-film modules.

• • Solar silicon
Solar silicon (also known as polysilicon) is the basic material used in the production of crystalline solar modules. The production of solar cells necessitates silicon in an ultra-pure state (solar grade).

• • Solar cells
A solar module is made up of several solar cells which are connected to one another. Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect), which generates direct current. In the production of a solar cell, wafers from the semi-conducting material silicon are doped (impurity doping). When two semiconductor layers with different impurities are put together, a so-called p-n junction is generated between the layers. An electric field is generated at this junction which separates the charge carriers released by photons. Voltage is tapped through the contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell. A differentiation is made between the different types of cells and modules.

• • Standard Test Conditions (STC)
The specific data of a solar module are measured under standard test conditions. Standard test conditions are defined as the solar irradiation of one kilowatt (kW) per square metre, a module temperature of 25 °C and a solar irradiation angle of 45°.

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

• • **System costs**
The system costs of a photovoltaic plant are a key factor for determining the investment costs and therefore the length of the period of amortisation. They are made up of the costs of all technical components (solar modules, installation system, direct current master switch, inverters, cabling and electricity meters) and of the work performed (development, planning, building, and over etc.). Financing costs, costs of official approvals, expert opinions, legal advice and similar services are not part of the system costs.

• • **System integration**
The efficiency of a photovoltaic system depends to a great extent on the ideal interaction of all the individual components. The more technologies and products offered for selection in the market, the greater the optimisation potential through consistent system integration. The tasks of system integration include the selection and checking of the individual components, as well as the reconciliation of all details in accordance with requirements, for example the installation system, taking account of local conditions on the respective sites.

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

• • **Turnkey power plant**
In photovoltaics, 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 photovoltaics, they are the primary product used in crystalline solar cells.

EDITORIALS AND CONTACT

PUBLISHER

Phoenix Solar AG
Hirschbergstraße 8
D-85254 Sulzemoos

www.phoenixsolar.com

INVESTOR RELATIONS

Dr. Joachim Fleïng
Phone +49 (0)8135 938-315
Fax +49 (0)8135 938-399
Email j.fleing@phoenixsolar.de

CREATION

RED, Munich/Krailling
„feel free!“ Weber & Kudla GbR – Friedberg

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 photovoltaics, the introduction of competitor products or technologies of other companies, the dependency on suppliers and the price development of solar modules, the development of the planned internationalisation of business activities, fierce competition and rapid technology change in the photovoltaic market. If one of these or other factors of uncertainty or risks should occur, or if the assumptions underlying the statements should prove incorrect, the actual results may diverge substantially from the results in these statements or implicit indications. Phoenix Solar AG does not have the intention, nor will it undertake any obligation to update forward-looking statements on an on-going basis or at a later point in time, as this is entirely dependent on circumstances prevailing on the day of their release.

FINANCIAL CALENDAR

8 May 2013	Report/Interim Figures as per 31 March 2013
6 June 2013	Ordinary Annual General Meeting of Shareholders 2013
8 August 2013	Report/Interim Figures as per 20 June 2013
7 November 2013	Report/Interim Figures as per 30 September 2013

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 Inetrnet.
This is an English translation of the German original. Only the German version is binding.

GROUP STRUCTURE

Group structure as at 30/12/2012

Phoenix Solar AG
Hirschbergstraße 8
D-85254 Sulzemoos, Germany
Phone +49 (0)8135 938-000
Fax +49 (0)8135 938-399
Email contact@phoenixsolar.com

www.phoenixsolar.com