phoenix SOLAR

MOMENT OF SUN
ANNUAL REPORT 2009

10 1999 2009

Financial figures of Phoenix Solar AG →

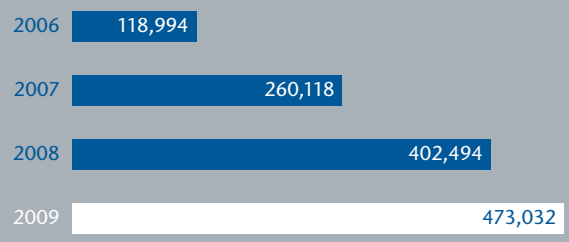
FINANCIAL FIGURES

		2009	2008	*Change in %*
Revenues and results				
Revenues	k€	473,032	402,494	*17.5*
– Domestic	k€	445,388	242,837	*83.4*
– International	k€	27,644	159,657	*– 82.7*
Overall performance	k€	456,160	419,366	*8.8*
EBIT	k€	12,176	33,823	*– 64.0*
– In % of revenues (EBIT margin)	%	2.57	8.40	*– 69.4*
Consolidiated net income for the period	k€	8,555	23,679	*– 63.9*
Orders on hand	k€	296,100	112,254	*163.8*
Balance sheet[1]				
Total assets	k€	182,232	127,763	*42.6*
Equity	k€	97,264	89,311	*8.9*
Equity ratio	%	53.37	69.90	*– 23.6*
Return on equity	%	9.58	50.03	*– 80.9*
Employees[1]				
Employees[2]	Heads	240	205	*17.1*
Revenues per capita[3]	k€	1,974	2,392	*– 17.4*
Phoenix solar share[1]				
No-par bearer shares	Units	6,700,700	6,684,500	*0.2*
Closing price at year-end	€	42.23	25.13	*68.0*
Market capitalisation	k€	282,971	167,981	*68.5*
Earnings per share				
– Basic	€	1.28	3.63	*– 64.8*
– Diluted	€	1.28	3.62	*– 64.7*
Dividend per share	€	0.20[4]	0.30	*– 33.3*

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

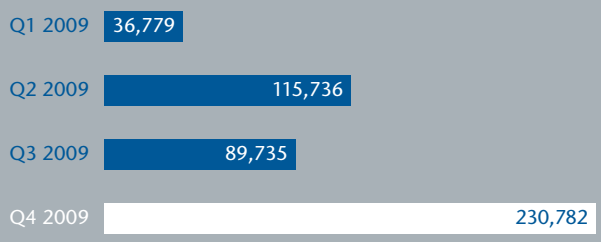
Revenues

k€

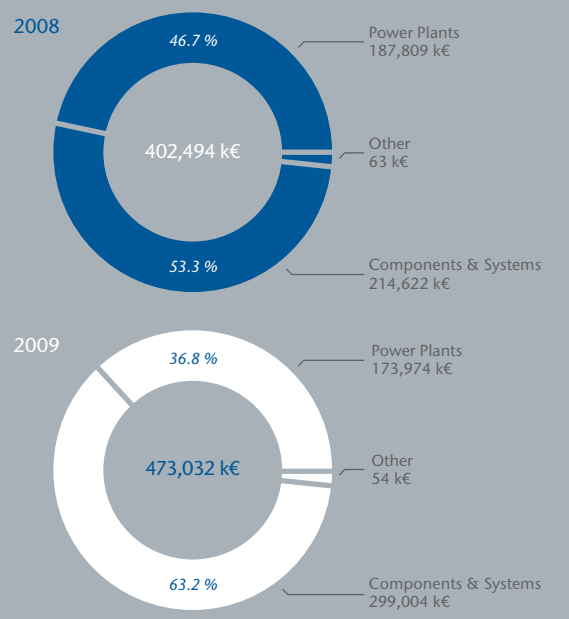


Revenues by quarter

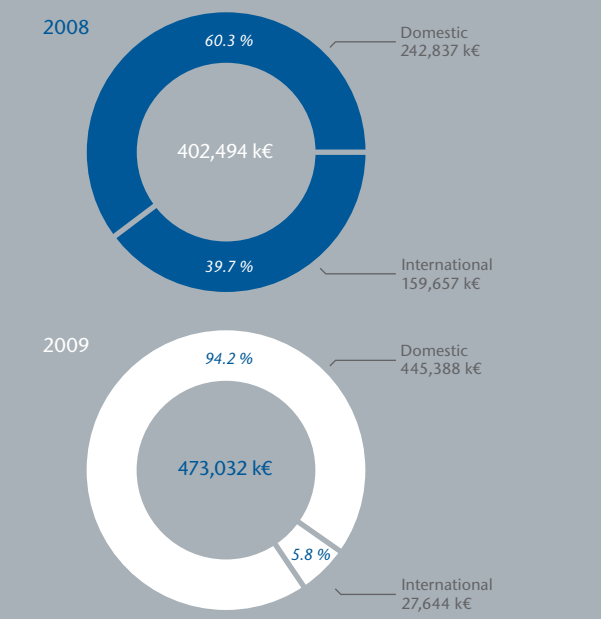
k€



Revenues by segment

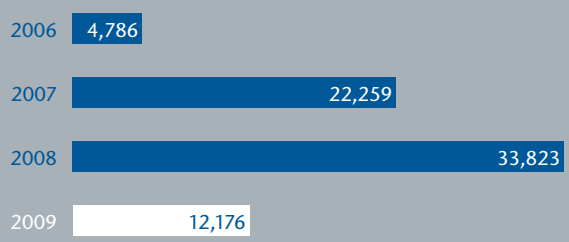


Revenues by region



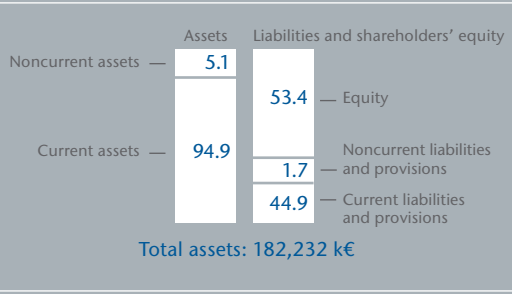
EBIT

k€



Balance sheet 2009

%



Total assets: 182,232 k€

MOMENT OF SUN

The power of the sun is inexhaustible and the necessity of having an environmentally compatible supply of energy more pressing than ever. This is why we work day by day on making photovoltaic systems more efficient, more profitable, and thus more competitive. We configure the best products in the market into turnkey solutions to give our customers maximum yield with the lowest system costs possible. Phoenix Solar sets benchmarks – as one of the world's leading photovoltaic system integrators for components and power plants. Each moment of sun counts – for our customers, shareholders, employees and business partners and, above all, for our environment.

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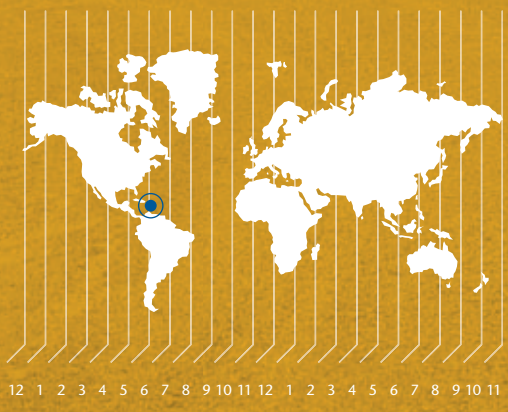
Additional Information

Guadeloupe
6:22 a.m.

Country, region: *France, French Antilles*
Geo-coordinates: *16° 15' N 61° 34' W*
Temperature: *24 °C*
Average solar irradiation per year: *1,864 kWh/m²*



← *Caribbean rain forest on Guadeloupe*

The French subsidiary Phoenix Solar SAS is founded in Lyon in autumn 2009. The team builds up both business segments and operates not only on the mainland but also delivers components and systems to the overseas department of Guadeloupe, to a new Phoenix Solar partner.

Phoenix Solar is successful in its two business segments in France as well: trading in Components & Systems and construction of Power Plants.

France sets significant milestones: by the year 2020, renewable energies are to contribute 20 percent of electricity generated which, in the case of photovoltaics, means a target of 5,400 megawatts installed. With attractive feed-in tariffs to run over a term of 20 years and additional tax relief, the framework conditions for this goal to be achieved were established at the start of 2010. In the overseas territories, government support is even higher than on the French mainland. The feed-in tariff of up to 58 cents per kilowatt hour paid for building-integrated photovoltaics (BIPV) is the highest in the world. Reason enough for Phoenix Solar to build up a highly efficient team locally in the country.

After careful consideration, the choice of location for the subsidiary fell on Lyon: The Rhône-Alpes and Provence-Alpes-Côte d'Azur regions are among the most important economic areas in France. Not long after entry into the French market, we were able to set the first milestones:

In the Components & Systems segments, we pursue the proven sales concept in our home market of Germany. Even before setting up our subsidiary, we had built up intensive business relationships with selected partners, a stable basis for effectively exploiting market opportunities. 2009, for instance, one of our premium partners ordered components and systems with an output of around 77 kWp for a project in Guadeloupe, a Caribbean overseas department of France.

We had already realised the first pilot project in the Power Plants segment by the end of 2009. Phoenix Solar developed, installed and took into operation a solar power plant with a peak output of 1.5 MW built on behalf of E.ON Climate & Renewables which is also the operator. This power plant is located close to Le Lauzet in the Alpes-de-Haute-Provence department on the south incline of the mountain at a height of 1,000 metres. Crystalline solar modules were used on a surface area of around 4 hectares and will produce around two million kWh per year. This is enough energy for 600 households.

Le Lauzet, Alpes-de-Haute-Provence: solar electricity for around 600 households

France: high feed-in tariffs for solar electricity

The course has been charted: In 2010, France is expecting a market growth to around 500 MWp in installed output. In 2009 alone, photovoltaics on the mainland grew by more than 300 percent. Mid-January 2010 saw the enacting of a new decree which regulates compensation for solar electricity and provides for a high level of national support. It is among the most attractive programmes in Europe.

	Continental France	Overseas regions and Corsica
Granting period	20 years	
Ground-mounted	0.314 – 0.377 €/kWh	0.40 €/kWh
Roof-top	0.314 – 0.50 €/kWh	0.40 €/kWh
BIPV	0.42 – 0.58 €/kWh	
Yearly cap	Installed peak capacity × 1,500 full load hours Thereafter: 0.05 €/kWh	Installed peak capacity × 1,800 full load hours Thereafter: 0.05 €/kWh
Other information	Tariff annually revised in inflation for new and existing FIT contracts. Tax remissions on material cost for private households	

Source: EPIA, March 2010; Phoenix Solar AG

LETTER TO OUR SHAREHOLDERS

May I give you my own personal standpoint on the financial year ended: I have worked in the photovoltaic industry for more than 23 years now, ten of which as Chief Executive Officer of Phoenix Solar AG. And never have I experienced a year of such radical changes happening in such rapid succession, a year which nonetheless did not prevent Phoenix Solar from setting a new record with revenues of EUR 473 million. Let me briefly describe the background for the generally weak development in the first eight months of 2009.

If the global crisis had been the only hurdle hindering or even preventing the financing of power plants over a period spanning several quarters, the photovoltaic industry would have emerged relatively well from the period from January to August.

But there were a number of factors which caused great turbulence in the global market. There was, on the one hand, the Spanish solar market, the world's largest photovoltaic market in 2008, which came to a standstill from the fourth quarter of 2008 onwards in terms of national support for photovoltaics and subsequently slumped by more than 95 percent in 2009. On the other, manufacturers of solar modules had ramped up production capacities worldwide by the end of 2008. These products flooded the market additionally looking for a buyer. In Germany the feed-in tariffs fell for the first time by up to 11 percent on 1 January 2009 instead of the customary 6.5 percent. These effects were compounded by the long, hard winter through to the end of the first quarter of 2009.

The sum total of all factors resulted in an oversupply of solar modules, full warehouses along the whole value chain, and prices which plummeted as from the start of 2009. Price discounts for modules and systems of 30 percent over the course of the year were the result. Never before in the history of the photovoltaic industry have prices tumbled so swiftly in such a short space of time. And price discounts were only able to partially compensate for cost reductions by solar module manufacturers.

Only from the third quarter did the market return to calmer waters and prices stabilise – whereupon demand rose promptly again. The fourth quarter which followed exceeded all preceding quarters and enabled us to partially make up for business lost in earlier months. The outcome was around EUR 231 million, almost half of annual revenues, and the quarter turned out to be the one in which the highest revenues in the history of the company were recorded.

How did we do it? First of all, long-term agreements with the manufacturers were a challenge. These agreements were formerly a type of insurance securing sufficient volumes of modules when they were scarce in the market. One of our most important tasks in balancing out supply and demand in the spring of 2009 was to renegotiate prices and delivery conditions. Moreover, we focused on our home market again because of the weakness prevailing in European markets outside Germany: With around 3,800 megawatt of installed output, Germany was again by far the largest and fastest-growing market in the world.

This strategy paid off: Phoenix Solar grew faster than the photovoltaic industry. As against market growth, which was 20 percent at best, we succeeded in raising our sales by almost 70 percent to more than 200 megawatt peak output. Our market share grew accordingly to between three and four percent.

At the end of the year, Phoenix Solar was one of the few listed German solar companies which closed the year with a growth in revenues and a profit. Reason enough for the Executive Board to propose payment of dividend again in 2009.

The beginning of 2010 is confidence inspiring: With orders on hand of just under EUR 300 million, we believe that the prerequisites are in place for achieving significant growth in sales and revenues. Nonetheless, the ongoing debate about the EEG is a cause of uncertainty in Germany. The additional reductions currently implemented over the course of the year in feed-in tariffs and the general prohibition on the installation of photovoltaic plants on farming land are the topics of discussion – and, in our view, both to the disadvantage of the German solar industry. We therefore expect two peaks in the German market during the year: one will come shortly before the additional lowering, presumably at mid-year, and the other at year-end when considerable reductions in remuneration for photovoltaic plants are introduced as from 1 January 2010 onwards.

The Executive Board will therefore only release guidance on revenues and earnings when the key components of the amended German Renewable Energies Act have been ultimately agreed. Our focus will now be on consistently expanding the international market presence of Phoenix Solar. We anticipate the swiftest growth first and foremost in Italy and France, and we have plans to set up our subsidiary in the USA, a potentially high-growth market, in the first half of 2010.

Our thanks go to you as our valued shareholders for the trust you placed in the management of our company in 2009. We also thank all the employees of the Phoenix Solar Group for their commitment and dedication in the financial year ended.

With sunny greetings,

Dr. Andreas Hänel
Chief Executive Officer

EXECUTIVE BOARD OF PHOENIX SOLAR AG

Dr. Andreas Hänel
Chairman of the Executive Board/CEO
Born in 1958

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

Responsible for
- Strategy and Business Development
- Corporate Communication
- Corporate Infrastructure

Manfred Bächler
Chief Technology Officer/CTO
Born in 1963

Member of the Executive Board since 2000

Responsible for
- Power Plant Construction, Maintenance and Operation
- Technology & Innovation
- Quality Assurance
- IT Services

Dr. Murray Cameron
Chief Operating Officer/COO
Born in 1962

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

Responsible for
- Procurement & Purchasing
- Logistics
- Public & Government Affairs

Sabine Kauper
Chief Financial Officer/CFO
Born in 1968

Member of the Executive Board since 2007

Responsible for
- Finance
- Internal Audit
- Law and Contracts
- Compliance
- Personnel & Change Management
- Phoenix Competence Center

Ulrich Reidenbach
Chief Sales Officer/CSO
Born in 1959

Member of the Executive Board since 2008

Responsible for
- Global Sales in the Components & Systems and Power Plants segments
- Marketing

Back row (left to right): Manfred Bächler, Dr. Andreas Hänel, Sabine Kauper
Front row: Dr. Murray Cameron, Ulrich Reidenbach

COMPANY PROFILE AND BUSINESS MODEL

PIONEER IN THE SOLAR INDUSTRY

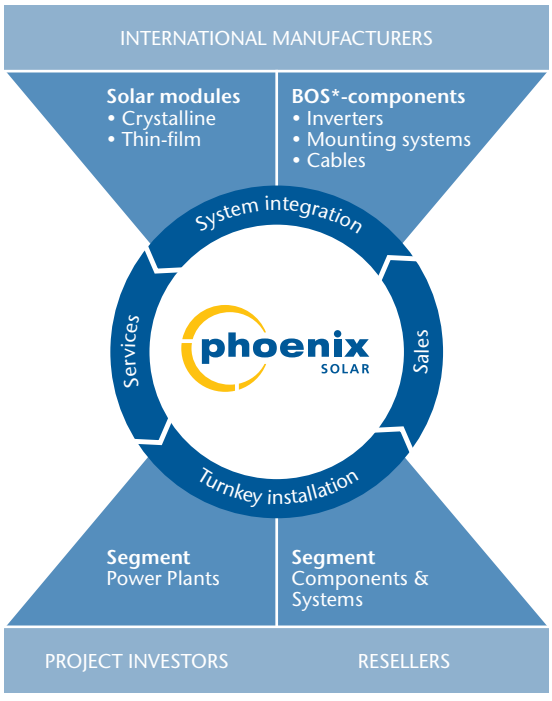
Phoenix Solar AG is a leading photovoltaic system integrator: As one of the pioneers in solar energy, we have been making major contributions to lowering the system costs of photovoltaic plants and accelerating the broad-based market introduction of solar technology since 1999. Phoenix Solar AG develops, plans, builds and operates large-scale photovoltaic plants and is a specialist wholesaler for complete power plants, solar modules and accessories. This dual function means that Phoenix Solar covers all system dimensions, from the one-kilowatt system for the roof of a private household right through to solar power plants in the multi-megawatt category.

Photovoltaics is one of the fastest growing segments in the market of renewable energies. Grid-connected solar electricity output installed in Germany alone more than doubled to around 8,000 megawatts (MW) over the period from 2007 to 2009. Many other international solar markets, such as France, Italy, the USA and Japan, are also growing swiftly.

FOCUS ON PHOTOVOLTAIC SYSTEM TECHNOLOGY

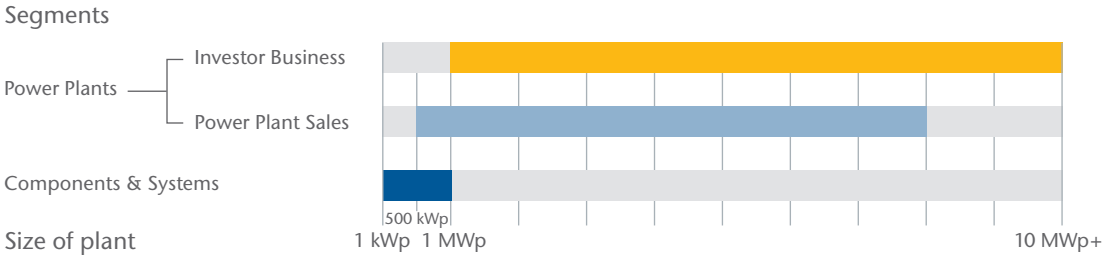
Based on the expertise we have built up over many years, we focus exclusively on photovoltaics. Because our business activities are positioned at the end of the value chain, we are close to the customer and in a position to act swiftly and flexibly. We screen the whole market, seeking out the best technologies and components to be able to offer our customers the best solutions, for use in both roof-top or ground-mounted systems, while taking special account of the specific circumstances of the location. In doing so, we now occupy a key position: For the manufacturers of photovoltaic modules we are the gateway to the end customer; for investors and operators we are the guarantor of the long-term profitability of solar power plants, and for retailers and wholesalers we are a reliable partner who can deliver high-quality components and tailored photovoltaic facilities. With its finger on the pulse of the market, Phoenix Solar sets benchmarks in system technology.

Business model



* Balance of system

Products & services portfolio



TWO SEGMENTS, ONE GOAL

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

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

As a system integrator, we provide full-line consultancy and other services in our Power Plants segment – from development and planning, across turnkey construction through to the operation of large-scale roof-top or ground-mounted photovoltaic plants. Our portfolio also includes support with financing, as well maintenance and repair. Through our Operation & Maintenance team in Ulm, we generate performance and yield data in real time for remote accessing and ensure steady and uninterrupted yield through our 24/7 stand-by availability. Along with private individuals and companies in trade and industry as well as utility companies, the main customers in this segment are above all local authorities and institutional investors like insurance and investment companies.

VALUABLE SYNERGIES

Thanks to close cooperation with manufacturers, know-how from the Power Plants segment is directly incorporated into developing and optimising products and services in the Components & Systems segment. The strategic link between the two segments benefits each and every customer. Moreover, we are very flexible due to the use of the same intermediate products in the installation of modules across the segments and, if required, we can balance out demand and strengthen our procurement position in the market.

OUR STRENGTH IS OUR INDEPENDENCE

The solar market is growing swiftly and demands great flexibility from all market participants. As a system integrator operating independently of manufacturers, we align our range of products and services to meet the requirements of our customers and are in a position to offer new technologies at any time. This head start has made us the market leader in thin-film modules, for instance. In 2009, Phoenix Solar sold around 13 percent of all solar modules produced worldwide with thin-film technology.

Whether crystalline or thin-film modules, inverters without transformers or central inverters, intelligent roof-top solutions or cost-effective jigs used in assembly, we combine quality benchmark products and services “Made in Germany” with an international market presence.

CLOSER TO THE CUSTOMER – THE WORLD OVER

Our home market is Germany. Phoenix Solar nonetheless operates in all the key markets for photovoltaics – in Europe, Asia and, very recently, also in the Gulf region. We plan to open a subsidiary in the USA in 2010. Proximity to the customer and agility in the market are what set us apart – both in technological and in financial terms. Our low volume of capital commitment, sound financial base and efficient partners give us the degree of flexibility we need to selectively exploit growth potential in all markets.

Company locations

MAKING ENERGY TOGETHER

Making photovoltaics more competitive – all over the world: This is the driving aspiration for Phoenix Solar. For us, each newly installed photovoltaic system is another step on the way towards a big goal – ensuring the environmentally compatible supply of energy today and tomorrow.

We have a vision: a world in which renewable energies secure a higher standard of living is our world. We consistently exploit the inexhaustible energy of the sun to produce electricity, thus shaping the supply of energy today and tomorrow.

The path we follow into this world reflects our mission: making energy together. Our manifold range of products and services offers tailormade solutions to our customers. Our expertise in consultancy and system technology sets us apart. We create value for our customers, partners, employees and shareholders.

10 YEARS OF PHOENIX SOLAR

Promoting photovoltaic means consistently seeking out the best solutions in the market – day in, day out: In the space of only ten years, Phoenix Solar AG has developed from a solar energy initiative to a leading photovoltaic system integrator in eight countries on three continents.

The last ten years in fast motion: In just under ten minutes, the sun's rays travel 150 million kilometres from the sun to the earth – at a speed of 300,000 kilometres per second. Since its founding in 1999, Phoenix Solar AG also has set a rapid pace over the last ten years.

MILESTONES

When the German Phönix Solar Initiative was launched by the Bund der Energieverbraucher e. V. (German Association of Energy Consumers) in 1994, no one ever suspected that it would later evolve into a leading supplier of photovoltaic systems. But after thousands of photovoltaic systems, installed the original pioneer spirit had long since developed into path-breaking expertise – and the consumer initiative into a market participant of serious proportions: In 1999, Phoenix Solar AG started operations under the name Phönix SonnenStrom AG and soon completed a photovoltaic power plant in the 1 MWp category. With successful projects in Germany and in the rest of Europe, the young company consolidated its market position step by step, while repeatedly setting new benchmarks in the world of photovoltaic.

In ten years, the number of employees has risen from two to 300, with a steady growth in sales averaging around 70 percent a year. Today, Phoenix Solar AG ranks among the leading international suppliers of photovoltaic systems.

GENERAL CONDITIONS

The cornerstone for the success of photovoltaic in Germany was laid by the 1,000 Roofs Programme initiated at the start of the 90s. Strong growth impetus emanated from the 100,000 Roofs Solar Electricity Programme which ran from 1999 onwards and which notably accelerated the upswing through to 2003. The German Renewable Energy Act (EEG), which entered into force in 2000, facilitated working with solar electricity generated independently from energy suppliers and fed into the grid. Electricity fed into the grid is compensated at a price fixed under the law over a period of 20 years. In the years that followed, similar stimulus from market-incentive programmes launched by the respective legislators triggered a boom in photovoltaic in other countries, above all in Southern Europe. The long-term goal of the photovoltaic industry is to be independent of all government subsidies, thereby becoming a competitive alternative when compared with other sources of energy. The key success factors of a solar power plant are therefore price, quality and profitability. The time is ripe: Current research predicts that the market volume is set to treble between 2009 and 2011.

1999

Headquarters in Sulzemoos

- Two employees: Dr. Andreas Hänel as Board member and a freelancer
- 18 November 1999: Founding of the company under the name of Phönix SonnenStrom AG
- Building up of sales activities throughout the whole of Germany
- First module supply contract with ASE, a company known today as Schott Solar which is still a supplier of Phoenix Solar

2000

Photovoltaic power plant Deutschhaus Ulm

- 30 employees, revenues of EUR 4 million
- Combining of all photovoltaic competences from the Phoenix Solar Initiative under Phönix SonnenStrom AG
- Entry into the power plant market segment through the takeover of Ulm-based MHH Solartechnik GmbH
- Enlargement of the Executive Board to two members, with Manfred Bächler as Chief Technology Officer
- Implementation of a 46 kWp roof-mounted plant for Deutschhaus Ulm (Germany) and a 14.4 kWp façade-mounted plant for Stadtwerke Ulm (Germany)
- Planning and construction of roof-mounted photovoltaic systems totalling 100 kWp on plus-energy houses in the Freiburg Solar Residential Complex (Germany)

2001

Phönix SonnenStrom AG share certificate

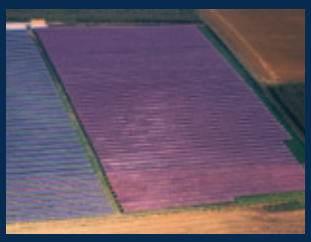
- 40 employees, revenues of EUR 14 million
- Raising of the number of Supervisory Board members from three to six people
- Private placement of one million registered Phönix SonnenStrom AG shares with a volume of EUR 12 million, then the largest of its kind in the solar sector
- Installation of a 111 kWp solar power plant on “Polariom”, the municipal ice rink in Germering (Germany)

2002

Roof-top power plant New Munich Trade Fair Centre

- 50 employees, revenues of EUR 20 million
- Takeover of SolAG, a project development company, later Phoenix Solar Energy Investments AG
- Opening of a sales representative office in Bad Segeberg (Schleswig-Holstein) and Stuttgart (Baden-Württemberg)
- Capital increase from own funds as a preparatory step towards stock exchange listing
- Participation in EUPRES, an EU pilot project aimed at supplying Europe with energy sourced 100 percent through renewable energies
- Construction and commissioning of the first 1 MW plant on the roof of the New Munich Trade Fair Centre; the roof-top plant with a total of 2.1 MWp was the largest to be taken into operation worldwide that year (Germany)

2003



Waltenhofen solar park

- 54 employees, revenues of EUR 23 million
- Enlargement of the Executive Board to three members, now including Dr. Murray Cameron, responsible for the new International Business department (later: Operations)
- Board member Dr. Cameron is appointed Vice President of the European Photovoltaic Industry Association (EPIA)
- Entry into thin-film technology through sales partnership with Mitsubishi Heavy Industries (MHI)
- Construction of the first solar sound-proofing wall with 180 kWp along the railway line in Vaterstetten near Munich (Germany)
- Start of construction work on the first thin-film 400 kWp solar park in Waltenhofen with MHI modules (Germany)

2004

Solar Pergola, Barcelona

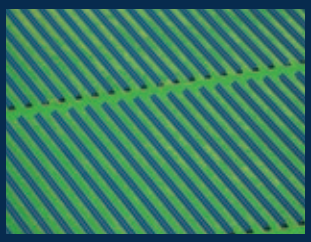
- 58 employees, revenues of EUR 67 million
- OTC listing on the stock exchanges of Munich, Frankfurt am Main, Berlin/Bremen and Stuttgart; change of share class to bearer shares (ISIN DE000A0BVU93)
- Building up of business relationship with First Solar, a manufacturer of thin-film modules in the USA
- Taking into operation of the Solar Pergola with 440 kWp in Barcelona (Spain)
- Start of construction of the 1.0 MWp Buttenwiesen solar park, at that time the world's largest photovoltaic plant built with thin-film modules (Germany)

2005

Miegersbach solar power plant

- 71 employees, revenues of EUR 111 million
- Switch of Phönix SonnenStrom AG to the M:access quality segment on the Munich Stock Exchange
- Award conferred for being one of fastest growing companies in Bavaria ("Bayerns Best 50") and in Europe ("Europe's 500")
- Development of the TectoSun assembly system for slanted roofs
- Commissioning of the 20 kWp "SonnenDach" flagship project of the German Energy Agency (Deutsche-Energie-Agentur [dena) for the German School in San Salvador, then the largest photovoltaic plant in Central America (El Salvador)
- Construction and commissioning of the first multi-megawatt plant with 5.3 MWp in Miegersbach (Germany)

2006



Photovoltaic power plant in Althegnenberg

- 101 employees, revenues of EUR 119 million
- Founding of the Spanish subsidiary Phoenix Energía Solar S.L., Madrid, now renamed as Phoenix Solar S.L. (Spain), and Phoenix Solar Pte Ltd in Singapore
- Participating interest of 49 percent in the system integrator RED 2002 S.r.l., Rome (Italy)
- Admission and listing on the regulated market of the Frankfurt Stock Exchange and implementation of the duties for transparent reporting of Prime Standard
- Signing of a long-term framework contract with First Solar on the delivery of thin-film modules
- Award in the "Visionary" category of the Bavarian Founders' Prize
- Completion of the 1.4 MWp Toledo solar park, the company's first megawatt project abroad (Spain)
- Completion of the 2.2 MWp Althegnenberg solar power plant (Germany)

2007

Change of name in Phoenix Solar AG

- 148 employees, revenues of EUR 260 million
- Renaming of Phönix Sonnen-Strom AG as Phoenix Solar AG
- Enlargement of Executive Board to four members through appointing Sabine Kauper as Chief Financial Officer
- Framework contract worth EUR 275 million with KG Allgemeine Leasing (KGAL) on project development and implementation
- Acquisition of similar projects in Spain with a total volume of EUR 20 million
- Commissioning of the dena flagship project, a 18 kWp roof-mounted plant for the German School in California (USA)
- Completion of the 1.9 MWp Sulzemoos solar power plant (Germany)
- First order placed by a British investor for a 3.0 MWp solar power plant in Longuich near Trier (Germany)

2008

Award for assembly system Phoenix Power Bridge®

- 205 employees, revenues of EUR 402 million
- Takeover of all shares in RED 2002 S.r.l. and renaming of the company as Phoenix Solar S.r.l., Rome, Italy
- Founding of the subsidiaries Phoenix E.P.E., Athens, Greece, and Phoenix Solar Pty Ltd, Adelaide, Australia
- Enlargement of the Executive Board to five members through appointing Ulrich Reidenbach as Chief Sales Officer
- Admission of Phoenix Solar AG to the German TecDAX technology index of the Frankfurt Stock Exchange
- Conferring of the Intersolar AWARD 2008 for the innovative Phoenix Power Bridge® assembly system
- Completion of the largest solar power plant in Greece to date, at 1 MWp, near Thessaloniki
- Completion of the 6.5 MWp La Solana solar park (Spain)

2009

Solar power plant, Changi Airport, Singapore

- 276 employees, revenues of EUR 473 million
- Founding of the subsidiaries Phoenix Solar SAS, Lyon, France, and Phoenix Solar L.L.C., Muscat, Oman
- Integration of Phoenix Solar Energy Investments AG into Phoenix Solar AG
- Ranked in first place among the TecDAX companies in the annual survey for “Best Investor Relations Germany” of the BörseOnline magazine
- Extending and renewal of the contract with KGAL with a minimum investment volume of EUR 525 million through to 2012
- Building of a photovoltaic power plant on the roof of Singapore’s Changi Airport with a peak output of 250 kW (Singapore)
- Completion of Germany’s largest roof-top power plant of 1 MWp on a carport in Berlin – at the same time, the capital city’s largest solar power plant (Germany)
- Commissioning of a 2.3 MWp roof-top plant for Stadtwerke Ulm (Germany)

PHOENIX SOLAR SHARE

STOCK MARKET ENVIRONMENT

After a weak start, 2009 saw a trend reversal on the stock markets. Initially, there was a slump on the international stock exchanges as the global economy slid deeper into recession in the first quarter. The Institute of Economic Research's ifo Business Climate Index fell to its lowest point in 25 years, and the US Consumer Conference (Conference Board) plummeted to an all-time low. Banks had to disclose write-downs in the billions in their financial statements. Large corporations revised their medium-term targets downwards and announced huge layoffs. Massive intervention by governments and central banks brought tumbling share prices on the stock exchanges to a halt in March. The German government launched another economic rescue package of more than EUR 50 billion. The economic rescue package in the USA was approved in an amount of USD 787 billion. The European Central Bank (ECB) cut its key rate again in 2009, from 2.5 percent to a record low of 1 percent. A gradual improvement in economic indicators, successful cost reductions and an ongoing expansionary monetary policy were behind the steady and strong recovery of the stock markets over the course of the year. During the second- and third-quarter reporting seasons, corporate profits came as a positive surprise. During the swift recovery which set in in the second quarter, setbacks in a number of economic indicators, insolvencies and anxieties about the level of government debt triggered waves of consolidation.

Germany's leading DAX indicator gained 24 percent. The share price performance of small and mid-sized enterprises was even better than that of the heavyweights in 2009. The MDAX climbed by 34 percent, and SDAX by 27 percent. The TecDAX, the leading index for technology companies in Germany which comprised eight companies from the solar industry as per the reporting date, rose by 61 percent.

The majority of solar equities in the TecDAX were among the winners of the sampling index in 2009. Phoenix Solar AG, whose share price had risen by almost 70 percent on 31 December 2009 compared against the start of the year, was also among these companies. The company took place 11 in the annual performance statistics. Two solar companies even succeeded in doubling their share prices. However, two TecDAX companies in the solar industry closed with share prices lower than year-end 2008 and were therefore among the few companies which lost out in the technology index. RENIXX® World (Renewable Energy Industrial Index), the global share index for renewable energies, closed the year 2009 with a gain of 7.2 percent. The Photon Photovoltaic Share Index (PPVX), in which Phoenix Solar AG was again included in March 2009, recorded an annual growth of 22.8 percent.

SHARE PRICE PERFORMANCE

Over the course of 2009, the price of the Phoenix Solar share recovered from the pressure exerted by the international financial crisis in the previous year and experienced a strong uptrend. The closing price on the last trading day of the reporting year stood at EUR 42.23 (2008: EUR 25.13), which is an increase of 68 percent (2008: – 39 percent). Following distinct gains, the equity outperformed the TecDAX reference index which advanced by 61 percent in 2009 and closed at 818 points at year-end.

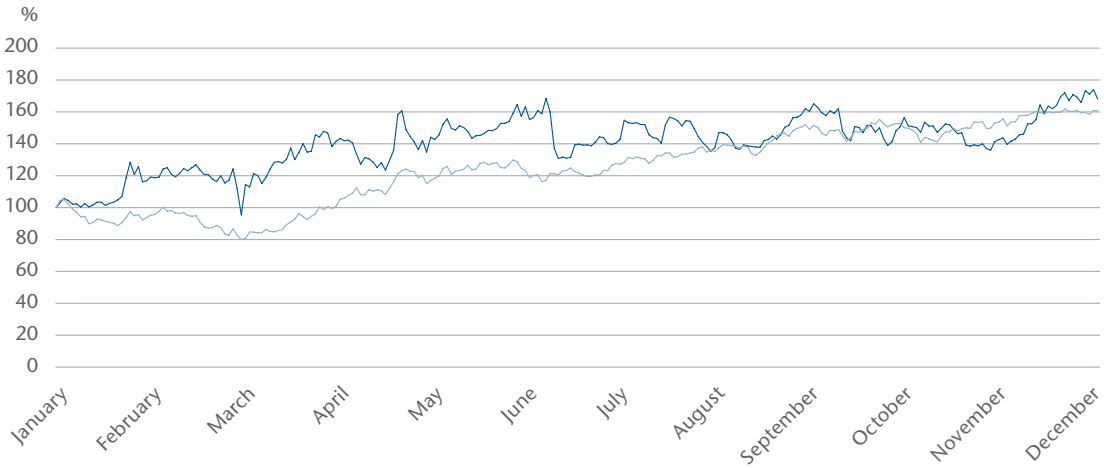
The share of Phoenix Solar AG emerged from trading with a mark-up of 35.3 percent in the first quarter. Price performance in January was driven by the early release of revenues and EBIT guidance for the current financial year as well as a long-term outlook with a horizon until 2013. The share rose by almost 26 percent in this month alone. Having trended sideways in February, share prices across the whole the sector tumbled from March onwards, a development triggered by the announcement of the weak preliminary annual results of a large solar company. On 5 and 6 March the share of Phoenix Solar AG shed more than 20 percent, falling to its lowest point in the year of EUR 23.91. Towards the end of the quarter, the share nonetheless made up the ground it had lost and emerged from trading with a clear quarter-on-quarter gain.

In the second quarter, the Phoenix Solar share was unable to track the development in the stock market. During this period it lost a marginal 3.3 percent of its value. In April, the share trended sideways and emerged from trading with a slight mark-up. Company information on new projects, the publication of the figures for the first quarter and the Annual General Meeting of Shareholders were all events in May when the share price rose by 8 percent. Subsequently, the share lost almost ten percent in June as against the previous month when the news that the Executive Board had to retract its EBIT guidance for 2009 was released on 25 June.

The third quarter saw the Phoenix Solar share price rise by 23.8 percent. At the end of July, the equity emerged from trading with a premium of around seven percent on a monthly basis, thus mirroring the generally positive market development. August saw its value slip a little. In September, more of a weak month on the stock exchange from a historical standpoint, the share value soared, gaining almost 17 percent. In this period, Phoenix Solar announced the extension and renewal of the framework agreement with KG Allgemeine Leasing and the founding of Phoenix Solar SAS, its French subsidiary.

In the final quarter, the share price climbed by 3.7 percent. The months of October and November were influenced by negotiations of the coalition agreement after the Bundestag election in September and the potentially negative impact on the solar industry. The discussion about an unplanned lowering of feed-in tariffs caused prices to fall. Positive company reports and optimistic expectations in the sector triggered a year-end rally in December when the share price gained around 18 percent. During this period, the share also reached its high for the year at EUR 43.74 on the last-but-one trading day in 2009.

Price performance of the Phoenix Solar share versus the TecDAX (01/01–31/12/2009)



Lowest price (06/03/2009): € 23.91
Highest price (29/12/2009): € 43.74

The market capitalisation of Phoenix Solar AG came to EUR 283.0 million on 31 December 2009 (31 December 2008: EUR 168.0 million). The trading volume of the share stood at 13.4 million units (2008: 17.3 million units) and turnover at EUR 470.9 million in 2009 (2008: EUR 626.7 million).

Measured by market capitalisation, Phoenix Solar came 19th among the 30 companies listed on the TecDAX, one notch up from 18th place on 31 December 2008. Measured by trading volume, the company came 15th at the end of the financial year, up from 17th in 2008.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The regular Annual General Meeting of the Shareholders of Phoenix Solar AG took place on 19 May 2009 in Fürstenfeldbruck with around 300 participants. The shareholders approved all items on the agenda by large majorities of between 92.82 and 99.99 percent. Presence during the casting of votes came to 36.57 percent of the share capital (2008: 31.09 percent). Among other decisions, the shareholders approved payment of a dividend in an amount of EUR 0.30 per share for 2008 as well as the integration of the subsidiary Phoenix Solar Energy Investments AG into Phoenix Solar AG.

DIVIDEND DISTRIBUTION

Phoenix Solar AG pursues a shareholder-oriented dividend policy which accords with company growth and the respective business situation. Dividend was paid for the first time in the year 2007 for the financial year 2006. Since this time, it has risen steadily year by year. In 2008, dividend of EUR 0.30 per share was approved. Dividend was disbursed on 20 May 2009 via a paying and depositary agent. With a gross dividend distribution of EUR 2.0 million, the payout ratio measured against the annual net income of Phoenix Solar AG (pursuant to the German Commercial Code (HGB)) comes to 8.23 percent. The Executive Board and the Supervisory Board plan to put forward a proposal to the Annual General Meeting of Shareholders for another dividend of EUR 0.20 per share for the financial year 2009.

Dividend

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

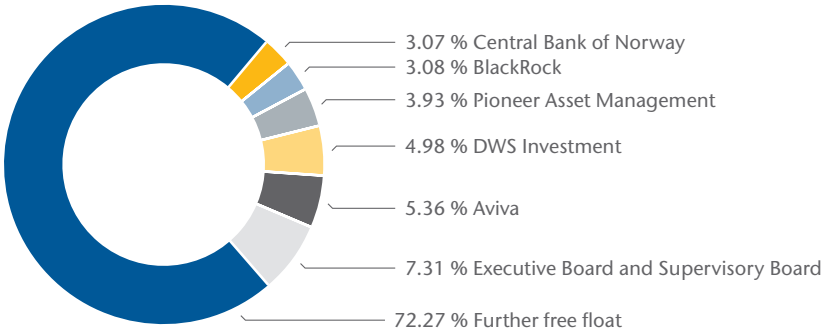
* Proposal for dividend distribution to be presented to the Annual General Meeting of Shareholders 2010

SHAREHOLDER STRUCTURE

In the financial year 2009, there were a number of notifications submitted pursuant to Sections 21 of the German Securities Trading Act (WpHG) in which shareholders indicated that their holdings had reached, exceeded or fallen below the statutory thresholds requiring reporting. Moreover, by the end of the month of December 2009, the total number of voting rights had risen to 6,700,700 through the exercising of share options as part of the Share Option Plan (SOP) 2006. All in all, the number of shares rose by 16,200 through the exercising of share options.

The shareholder structure as per 31 December 2009, and as known to Phoenix Solar AG, is shown below:

Shareholder structure as per 31/12/2009



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

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

INVESTOR RELATIONS

Active, ongoing and open financial communication is the hallmark of Phoenix Solar AG's communication policy. The company has stepped up the exchange of information with capital market participants as part of its investor relations work, along with extending its catalogue of measures (e.g. Capital Market Day) and raising the personnel and financial resources that this necessitates. The key issues in the company's capital market communication are its financial position, current developments in the market, as well as the strategy and the outlook of the Group. In the financial year ended, the emphasis was placed on the global crisis in the financial markets, the tumbling prices of photovoltaic modules and systems, and the political discussion on promoting photovoltaic systems in the future.

The range of information on the website at www.phoenixsolar.com/InvestorRelations is updated on a regular basis and supplemented by new content. Along with fundamental information on the share, recordings of telephone conferences are also available online.

Phoenix Solar AG took part in eight capital market conferences in Germany and abroad in the financial year 2009. In January, the Executive Board presented the Group at the third HSBC Small/Mid Cap SRI Conference organised by HSBC Trinkaus & Burkhardt in Frankfurt am Main, and in February at the Annual Clean Technology and Renewables Conference arranged by the investment bank Piper Jaffray in New York. In March, the Group also participated in the Commerzbank Growth & Responsibility Conference in Frankfurt am Main. In April, Phoenix Solar AG presented to private and institutional investors at the Munich Capital Market Conference organised by Börse München. The MainFirst Bank Intersolar Investor Conference 2009 took place in May as part of the Intersolar trade fair in Munich. In June, the company participated in the Europe Conference of Piper Jaffray in London. Moreover, the company presented at the German Equity Forum of Deutsche Börse AG in Frankfurt am Main in November as well as at the 24th Baader Small and Mid Cap Conference arranged by Baader Bank in Unterschleißheim near Munich. December saw Phoenix Solar participate in the Wind & Solar: Getting Connected Conference organised by Macquarie in London.

Together with a number of brokers, Phoenix Solar made contact with investors and stepped up the exchange of information within the context of road shows in the financial year. A road show was organised in Hamburg, Germany, in 2009. In addition, management and the Investor Relations Department visited the European financial centres of Paris, London, Edinburgh, Zürich, Amsterdam, Rotterdam, The Hague, Copenhagen and Stockholm. Outside Europe, Phoenix Solar AG presented to investors in New York and Boston.

Along with conferences and road shows, there were many group and one-to-one discussions at company headquarters in Sulzemoos. Many of the investors and analysts who participated in a photovoltaic conference in Munich at the start of March also took the opportunity of visiting company headquarters. In addition, management and the Investor Relations Department were available in conference calls for the exchange of information at regular intervals.

The Intersolar trade fair, held for the first time in Munich in June, also attracted many international investors and analysts who made appointments for meetings at the Phoenix Solar AG trade fair stand. More meetings took place at the 24th European Photovoltaic Solar Energy Conference and Exhibition in Hamburg in September. The Executive Board presented the company at the 10th Forum Solarpraxis in Berlin and was available to meet with interested parties.

The first Capital Market Day of Phoenix Solar AG for financial analysts and institutional investors was held at company headquarters on 26 May 2009. Around 60 participants from Germany and abroad accepted the invitation to come to Sulzemoos to be informed about the development of the company and its strategic direction. The programme comprised presentations by managers, discussions with management and a guided tour of a photovoltaic power plant.

The company's Financial Calendar 2010 has been printed on the inside of the back cover of this Annual Report and is regularly updated on the website of Phoenix Solar AG under the Investor Relations heading.

ANALYST COVERAGE

As per 31 December 2009, 21 banks were covering the Phoenix Solar share. The following banks had taken up regular coverage on Phoenix Solar in the reporting period:

- Arete Research, London
- Arkeon Finance, Paris
- Barclays Capital, London
- CA Cheuvreux, Frankfurt am Main
- Jefferies, London
- LBBW, Stuttgart
- Macquarie, London
- Nord/LB, Hannover
- Piper Jaffray, Minneapolis
- WestLB, Düsseldorf

At the start of 2010, Close Brothers Seydler Bank and DZ BANK in Frankfurt am Main also took up coverage. Other analyst enterprises have expressed their interest in the company and plan to begin coverage and analysis over the course of the year.

Key share data

		Q1 2009	Q2 2009	Q3 2009	Q4 2009	2009	2008
Number of shares [1]	Units	6,684,500	6,684,500	6,693,900	6,700,700	6,700,700	6,684,500
Market capitalisation [1]	€	227,273,000	219,853,205	272,508,669	282,970,561	282,970,561	167,981,485
Closing price (Xetra)	€	34.00	32.89	40.71	42.23	42.23	25.13
Highest price	€	35.18	42.35	41.50	43.74	43.74	52.65
Lowest price	€	23.91	30.50	33.03	34.17	23.91	19.61
Trading volume	Units	2,889,440	3,852,653	3,557,539	3,068,332	13,367,964	17,341,739
	€	84,151,198	140,454,573	130,646,091	115,683,147	470,935,008	626,681,819
Dividend	€	-	-	-	-	0.20 [2]	0.30
Dividend yield	%	-	-	-	-	0.47 [2]	1.19
Earnings per share	€	– 0.89 [3]	0.17 [3]	0.15 [3]	1.86 [3]	1.28 [3]	3.63 [3]
	€	– 0.89 [4]	0.17 [4]	0.15 [4]	1.86 [4]	1.28 [4]	3.62 [4]

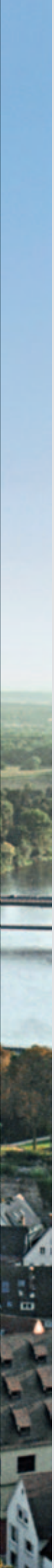
[1] At the end of the period
[2] Dividend distribution proposal
[3] Basic earnings per share
[4] Diluted earnings per share

Share fact sheet

International Securities Identification Number (ISIN)	DE000A0BVU93
Securities code number (Sec. code no.)	A0BVU9
Symbol	PS4
Class of shares	No-par bearer shares
Number of shares as per 31/12/2009	6,700,700 units
Share capital on 31/12/2009	€ 6,700,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	Xetra, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin/Bremen, Düsseldorf, Hamburg, Hannover
Sector/sub-sector	Industrial Products & Services/Renewable Energies
Indices	TecDAX, ÖkoDAX, Midcap Market, HDAX, Technology All Share, Prime All Share, CDAX, DAX International 100, diverse sector and sub-sector indices of Deutsche Börse AG; Photovoltaic Global 30 Index, RENIXX® World, PPVX, S&P Global Clean Energy
End of the financial year	31 December
Accounting standards	IFRS
Commencement of stock market listing	18/11/2004
Designated sponsor	HSBC Trinkaus & Burkhardt AG

Ulm
11:22 a.m.

Country, region: *Germany, Central Europe*
Geo-coordinates: *48° 24' N 09° 59' E*
Temperature: *15 °C*
Average solar irradiation per year: *1,113 kWh/m²*



← *View from Ulm Minster*

On behalf of SWU Energie GmbH, a wholly-owned subsidiary of Stadtwerke Ulm/Neu-Ulm, Phoenix Solar AG built a 2.3 MW solar power plant on the roof of the production building of EvoBus GmbH in Neu-Ulm. The plant was conceived as a public participation project and today supplies around 650 households with environmentally compatible electricity.

Although ice and snow hampered the assembly work, the power plant was ready on time and commissioned by the deadline and, since then, has generated power from the heavens for the citizens of Ulm.

Large roof and service areas on industrial buildings harbour great potential for the production of solar electricity which, with the right system technology, can be increasingly released. An actual example at Phoenix Solar is the roof-integrated photovoltaic plant on the production building of EvoBus in which chassis, city buses and coaches are manufactured. The trapeze tin roof, typical of industry, is optimal for building a roof-integrated power plant guaranteeing high yield because of the large roof space available and the fact that it faces southwards at an angle of 13 degrees.

In autumn 2008, our power plant team began to develop the project and realised the largest roof-top project of Phoenix Solar within a period of five months in the middle of winter. The Ulm civic power plant was completed in two phases and became operational in March 2009. On 14 shed roofs with a surface area of just under 18,000 square metres, we installed around 13,500 crystalline solar modules using Tecto-Sun Plus, an assembly system developed by Phoenix Solar and certified by TÜV (German Technical Inspection Authority). The combination of great efficiency, low surface area requirements and low systems costs were all arguments in favour of using crystalline solar modules. A total of 7,200 Phoenix Solar PHX-160 modules and 6,624 SunTech STP-175 modules with four SMA SC 560 HE inverters were configured.

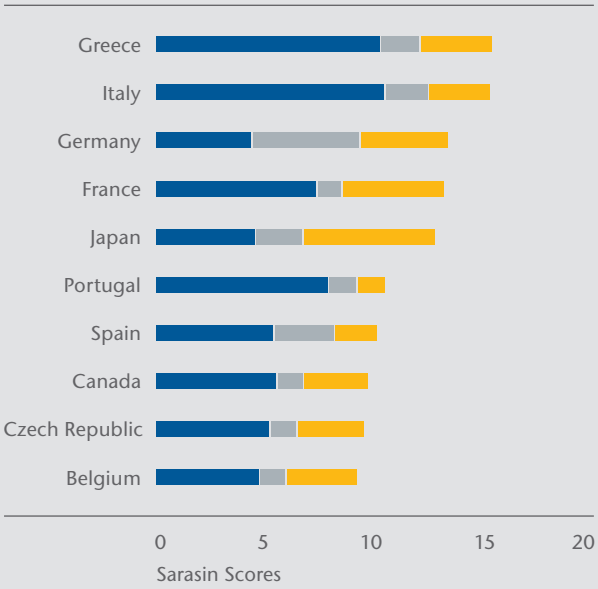
The resulting energy audit is impressive: From April to December 2009, the solar power plants delivered an energy yield of around 2.3 million kWh. With a feed-in tariff of 43.99 cents per kilowatt hour, annual compensation comes to around one million euros. Through their commitment, the investors of the civic power plant save an estimated 1,400 tons per year on CO_2 emissions.

In order to secure return over the 20-year term of the project, the operator relies on steady status control of its solar power plant: The Phoenix monitoring and maintenance service compares the maximum potential output with the actual output of the plant and eliminates any causes of downtime immediately. This guarantees a secure return based on maximum profitability.

EvoBus production building, Neu-Ulm: Nearly 14,000 solar modules installed

Roof-top photovoltaic systems: great potential in Europe's key markets

Roof surfaces and photovoltaics are an ideal partnership. Through refocusing policies to promote solar electricity, commercial and industrial roofs are becoming more attractive in the German market. The current solar energy report of the Bank Sarasin documents excellent prospects for roof-top photovoltaics, also in other key markets of Europe.



- Internal rate of return (i.a. feed-in compensation, local electricity rates and natural irradiation)
- Market maturity (infrastructure and companies for installation of solar power plants on site)
- Growth potential (legally defined caps and overriding political aims for photovoltaics as criteria)

Source: Rabobank and Bank Sarasin, November 2009

REPORT OF THE SUPERVISORY BOARD

Report of the Supervisory Board to the regular Annual General Meeting of Shareholders on its audit of the financial statements as at 31 December 2009, on its supervision of management during the financial year and on its statement on the report submit ted by the independent auditor pursuant to Sections 171 para. 1 to 3 and 172 para. 1 German Stock Corporation Act (AktG).

GENERAL INFORMATION

The Supervisory Board held ten regular meetings, eight of which in the presence of the Executive Board, in the financial year. In doing so, it fulfilled the tasks incumbent on it under the law, the Articles of Association and the bylaws of the company. In the case of urgent matters, the Supervisory Board passed resolutions by way of telephone conference or by written circular proced ure, whenever necessary. Following its careful examination and discussion, the Supervisory Board gave its approval to the resolutions put forward by the Executive Board.

The Supervisory Board comprises six members: J. Michael Fischl (Chairman), Ulrich Fröhner (Vice Chairman), Ulrich Th. Hirsch, Prof. Dr. Klaus Höfle, Dr. Patrick Schweisthal and Prof. Dr. Thomas Zinser.

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

The Audit Committee held four meetings, three of which in the presence of the independent auditor, established key audit areas and discussed interim reports. The Chief Financial Officer took part in all meetings. Moreover, the committee concerned itself with issues relating to the accounting and risk management and gained an insight into the activities of the departments in the area of finance. In addition, it took cognizance of reports on the audit activities of Internal Audit. The examination of the quarterly financial statements by the independent auditor was carried out on two reporting dates. Furthermore, the Audit Committee made a recommendation for the proposal by the Supervisory Board to the Annual General Meeting of Shareholders concerning the selection of the external auditor for the financial year 2010. The Audit Committee members are Prof. Dr. Thomas Zinser (Chairman), Ulrich Th. Hirsch and Dr. Patrick Schweisthal.

The Personnel Committee is made up of the following members: J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle. It met three times in the period under review and focused on issues pertaining to the goals agreed and reviewing the extent to which these goals were achieved by the members of the Executive Board. In addition, questions relating to the reallocation of the scope of tasks of individual Executive Board members in preparation for contract renewals and in connection with the implementation of the German Act on the Appropriateness of Executive Remuneration (VorstAG) were also discussed.

The Nomination Committee, comprising the members J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser, met twice to discuss the issue of appointing new members to the Supervisory Board. Members of the committee discussed proposals with potential candidates in preparation for this measure.

In accordance with the resolution passed by the Annual General Meeting of Shareholders, the Chairman of the Supervisory Board mandated the Munich-based auditing company AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft on 25 November 2009 pursuant to Section 111 para. 2, sentence 3 of the German Stock Corporation Act (AktG) to audit the financial statements and the management report as well as the consolidated financial statements and the management report on the Group drawn up in accordance with Section 315a of the German Commercial Code (HGB) and based on the standards set out under IFRS/IAS. The independent auditor submitted an Auditor's Independence Declaration to the Audit Committee on 23 March 2009 pursuant to Code Item 7.2.1 of the German Corporate Governance Code, the correctness of which the Supervisory Board does not doubt.

The Supervisory Board reviews the efficiency of its work on an ongoing basis. Key areas are the organisation and sequence of meetings, the optimization of reporting by the Executive Board and resolutions passed on agenda items, as well as risk management. In addition, a requirements profile was drawn up based on a SWOT analysis for members of the Supervisory Board to support the Nomination Committee in its selection of candidates for new elections to the Supervisory Board at the Annual General Meeting of Shareholders 2010.

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

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

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

- receipt and discussion of the reports prepared by the Executive Board in accordance with Section 90 of the German Stock Corporation Act (AktG) on the liquidity and financial position, the intended business policy and other fundamental issues pertaining to corporate planning (in particular, finance, investment and personnel planning),
- discussion and analysis of the impact of the global financial crisis on the photovoltaic industry and deriving consequences from this for the company,
- assessment of the impact of political discussions on key regions such as, for instance, Germany, Southern and Eastern Europe and the USA in terms of the business policy of the company,
- ongoing development of the corporate strategy and reconciliation of the impact on corporate planning as well as on the organisation structure and organisation of workflows,
- financing of the Group and the subsidiaries,
- monitoring and implementation of the internal control system (risk monitoring and early warning system in accordance with Section 91 of the German Stock Corporation Act) and the information gained therefrom,
- acceptance of reporting in the context of compliance-management-systems,
- monitoring of the stock market value of the company,

- cognizance of the development of instruments designed to optimise procurement and inventory management,
- human resource development within the company,
- discussion on the progress made by individual business segments and the subsidiaries,
- concepts for the market development and sales strategy,
- review and discussion of major contractual problems,
- addressing of the content of German Corporate Governance Code.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS BY THE SUPERVISORY BOARD

Together with the members of the Audit Committee and the other members of the Supervisory Board, the Chairman of the Supervisory Board took acceptance of the following immediately upon their completion and in good time before the meeting of the Supervisory Board:

- the annual financial statements and the proposal for the appropriation of profit by the Executive Board for the financial year 2009,
- the report by the Executive Board on the situation of the company in 2009,
- the consolidated financial statements for the financial year 2009 pursuant to the standards laid down under IFRS/IAS,
- the report by the Executive Board on the situation of the Group in 2009.

The financial statements and the management report at company level, and the financial statements and the management report at Group level were audited by the auditing company AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft. The audit did not give rise to any objections; an unqualified audit opinion was issued.

In the discussions of the Audit Committee with the Chief Financial Officer and the independent auditor, as well as through questioning and discussion with the independent auditor following its report on the main findings of its audit in the financial statements meeting on the 14 April 2010, in which the Executive Board also participated and explained the financial statements it had drawn up as well as risk management system, the Supervisory Board carefully examined the annual financial statements and management report submitted and is convinced of the following:

- all the components of financial accounting are systematically correct in as much as they form the basis for the annual financial statements;
- the methods for achieving complete, accurate, timely and systematic storage, processing and recording of accounting data have been duly set in place;
- the system of documentation is well organised, and each individual business transaction can be traced through to its presentation in the annual financial statements and back again;
- having conducted sample checks of the underlying substantiation of assets and liabilities, that they accord with the book values disclosed;

- in connection with the assessment of uncompleted transactions and information in the notes to the consolidated financial statements, the contract register does not give the impression of being obscure or incomplete;
- the statutory rules governing recognition, disclosure and valuation have been complied with and the annual financial statements give a true and fair view of the net assets, financial position and result of operations of the company.

Following the concluding results of its audit, the Supervisory Board ascertained that there were no objections to be raised.

The Supervisory Board has ratified the financial statements prepared by the Executive Board of the company, which are thereby adopted. The Supervisory Board approved the consolidated financial statements and the management report on the Group as per 31 December 2009. The proposal of the Executive Board to use unappropriated retained earnings to pay a dividend of EUR 0.20 per share, which comes to a total of EUR 1,340,140.00 on the dividend-bearing share capital of EUR 6,700,700.00, to the shareholders and to carry forward the balance to new account was approved by the Supervisory Board.

In its meeting on 14 April 2010, and following consultation with the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act, the Supervisory Board resolved upon the following statement:

Based on its own examination, the Supervisory Board accedes to the results of the audit carried out on the annual financial statements and the management report for 2009 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 2009 were ratified by the Supervisory Board in its meeting on 14 April 2010, and are thereby adopted.

Moreover, the Supervisory Board approves the proposal of the Executive Board to put a resolution to the Annual General Meeting of Shareholders for payment of dividend from the unappropriated retained earnings of EUR 43,345,366.66 of EUR 0.20 per share and carry forward the remaining balance of EUR 42,005,226.66 to new account.

Furthermore, the Supervisory Board ratified the consolidated financial statements as at 31 December 2009 and the management report on the Group for the financial year 2009.

Sulzemoos, 14 April 2010

Dipl.-Kfm. J. Michael Fischl
(Chairman of the Supervisory Board)

CORPORATE GOVERNANCE REPORT

Openness is the underpinning basis for trust to grow. Phoenix Solar AG views the responsible, transparent management of the company and open dialogue with shareholders, analysts, employees, business partners, customers and the public at large as one of the fundaments underlying long-term success. The Executive Board and the Supervisory Board have geared their actions towards creating sustainable value added for the company and are committed to upholding the principles set out under the German Corporate Governance Code (GCGC or Code). Apart from a few exceptions, Phoenix Solar AG has adopted the recommendations and suggestions of the GCGC. This Corporate Governance Report, prepared by the Executive Board and the Supervisory Board in accordance with Item 3.10 of the Code in the version valid since June 2009, elucidates the main corporate governance components of the company and explains any departures from the recommendations of the Code in the Declaration of Conformity.

AMENDMENTS TO THE GERMAN CORPORATE GOVERNANCE CODE

The version dated 6 June 2008 of the GCGC has been revised by the Government Commission of the German Corporate Governance Code in a number of instances and has been reformulated in the new version dated 18 June 2009. In the new version of the Code, the Commission concentrated first and foremost on the responsibility of the Executive Board, the supervisory function of the Supervisory Board and transparency in the remuneration of members of the Executive Board. The measures are intended to set in place the prerequisites for good corporate governance geared to sustainability.

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

The Code recommends that a Directors & Officers (D&O) insurance be taken out which includes a deductible of a minimum ten percent of the loss up to an amount of at least one and a half times the fixed annual remuneration of the Executive Board member and also provides for an appropriate deductible for Supervisory Board members. This recommendation will be implemented at Phoenix Solar AG upon the entering into force of the statutory obligation on 1 July 2010 (in accordance with Code Item 3.8).

The full Supervisory Board determines the overall remuneration of the individual Executive Board members, but differentiates remuneration to reflect its appropriateness and includes any other compensation remunerated within the Group on the basis of the individual Board member's performance. Compensation and its appropriateness will be reviewed regularly once a year from 2010 onwards.

In the financial year 2010, an index-oriented remuneration system is to be introduced for the Executive Board. This system take account of a peer group comparison and comprises a multi-year assessment horizon for the variable components of remuneration. The regulations of the GCGC will be adhered to when remuneration is agreed. Moreover, the Supervisory Board will agree a cap for performance-based remuneration as from 2010 onwards (in accordance with Code Item 4.2.3).

With the publication of the Corporate Governance Report and the Annual Report, commitments granted or changed during the financial year in respect of benefits which Executive Board members would receive in the case of premature or regular termination of their activities as Executive Board members are disclosed (in accordance with Code Item 4.2.4).

Phoenix Solar AG takes account of the precept of diversity in the composition of the Executive Board. Together with the Executive Board, the Supervisory Board shall ensure a long-term succession planning which, owing to the age structure of the Executive Board, has not been necessary to date. In the Supervisory Board meeting on 16 December 2009, an age limit of 67 years was established for Executive Board members (in accordance with Code Item 5.1.2).

The Chairman of the Audit Committee of Phoenix Solar AG is independent and not a former member of the company's Executive Board (in accordance with Code Item 5.3.2).

Also as regards nominations for the election of Supervisory Board members, in addition to ensuring the knowledge, abilities and expert experience necessary to properly complete the tasks, the international activities of the company, potential conflicts of interest, the age limit defined for Supervisory Board members and diversity are taken into account (in accordance with Code Item 5.4.1).

In the Supervisory Board elections in 2010, all six members will be newly elected on an individual basis. Proposed candidates for the Supervisory Board chair will be announced to the shareholders (in accordance with Code Item 5.4.3).

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

COOPERATION BETWEEN THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD

The Executive Board and Supervisory Board make up the dual board system of management and control of Phoenix Solar AG. Both executive bodies work closely together to ensure a responsible opportunity and risk management with the aim of raising the enterprise value on a sustainable basis. In this task, the two functions of "management" and "supervision" are clearly separated.

The members of the Executive Board manage the company under their own responsibility and take the necessary decisions in regular meetings which generally take place on a weekly basis. The Board develops the corporate strategy and initiates 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 bylaws approved by the Supervisory Board serve as a basis of cooperation for the Executive Board. The Executive Board informs the Supervisory Board regularly, promptly and extensively about the course of business and the situation of the company, all important issues relating to business development, 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.

In January 2009, Phoenix Solar AG set up a Non-Executive Board and, over the course of the year, appointed three members to this Board. The members are managers in the employment of the company. The Non-Executive Board, enables the company to draw on the expert knowledge and abilities of a group of managers at a high level.

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

THE COMMITTEES OF THE SUPERVISORY BOARD

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

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

The Personnel Committee, similarly made up of three persons, is responsible for agreeing goals in the context of the performance-related remuneration of the members of the Executive Board and for ascertaining the extent to which goals have been achieved. In addition, the committee draws up the Executive Board member contracts and puts forward proposals for long-term succession planning for the Executive Board. The Personnel Committee is made up of the following members: J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle.

The Nomination Committee is made up of the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. The task and responsibility of the committee in 2009 were to put forward recommendations for suitable candidates for election to the Supervisory Board by the Annual General Meeting of Shareholders on 16 June 2010.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The risk management system of the Group serves to identify, control and manage risks which occur. Above and beyond risks to the company as a going concern, activities, events and developments are also recorded by the system if they might exert a significant influence on the success of the company's business in the future. The objectives, processes and distribution of tasks in the context of risk management are documented in the Risk Management Manual of the company.

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

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

SHAREHOLDINGS AND DIRECTORS' DEALINGS

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

In the financial year 2009, a series of individual not reportable and reportable transactions within the meaning of Section 15a of the German Securities Trading Act (WpHG) were carried out by the Executive Board and the Supervisory Board. The proportion of shares held by the Executive Board and the Supervisory Board has fallen owing to the increase in share capital through the conversion of share options into shares. The table below gives an overview of shareholdings (direct and indirect) of the Executive Board in the shares issued by the company:

Executive Board	Units	Holding
Dr. Andreas Hänel	227,200 (227,200)	3.39 % (3.40 %)
Manfred Bächler	172,530 (183,530)	2.57 % (2.75 %)
Dr. Murray Cameron	69,750 (69,750)	1.04 % (1.04 %)
Sabine Kauper	190 (190)	< 0.01 % (< 0.01 %)
Ulrich Reidenbach	216 (160)	< 0.01 % (< 0.01 %)

(as of 31/12/2009, including share voting rights assigned pursuant to Section 22 of the German Securities Trading Act (WpHG), 2008 figures in brackets)

At Supervisory Board level, Mr. Ulrich Fröhner (18,600 units, 0.28 percent) and Prof. Dr. Klaus Höfle (1,575 units, 0.02 percent) hold shares in the company. As per 31 December 2009, the Supervisory Board therefore held 0.30 percent (2008: 0.30 percent) and the Executive Board 7.01 percent (2008: 7.19 percent) in the share capital of the company. The members of both executive bodies together hold shares amounting to 7.31 percent in the company (2007: 7.49 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 1.7 "Remuneration report" of the Management Report. Information on commitments and benefits which Executive Board members would receive in the case of premature or regular termination of their activities as Executive Board members or which have changed during the financial year are disclosed under Section 1.5 "Reporting pursuant to Section 315 para. 4 of the German Commercial Code (HGB)" in the Management Report.

JOINT DECLARATION OF CONFORMITY

by the Executive Board and the Supervisory Board of Phoenix Solar AG on the German Corporate Governance Code

The Executive Board and the Supervisory Board of Phoenix Solar AG herewith declare that, since the last Declaration of Conformity dated 19 March 2009, Phoenix Solar AG complies/has complied with the recommendations of the Government Commission's German Code of Corporate Governance in the version dated 6 June 2008 through to 5 August 2009, as well as the recommendations of the German Corporate Governance Code of the version dated 18 June 2009 subsequently published in the official section of the German Federal Gazette on 5 August 2009, to the exception of the following:

DEDUCTIBLE IN D&O INSURANCES

(in accordance with Code Item 3.8)

The recommended Directors & Officers (D&O) insurance with a deductible of a minimum ten percent of the loss up to an amount of at least one and a half times the fixed annual remuneration of the Executive Board member and an appropriate deductible for Supervisory Board members will be introduced as from 1 July 2010.

Up until now the company was of the opinion that a deductible did not constitute additional motivation for members of the executive bodies to perform their duties prudently and conscientiously. To allow a insurance policy currently taken out to run without interruption, the introduction of a deductible will deviate from the Code.

DETERMINATION OF THE OVERALL REMUNERATION OF THE INDIVIDUAL EXECUTIVE BOARD MEMBERS BY THE FULL SUPERVISORY BOARD

(in accordance with Code Item 4.2.2)
A regular annual review of the overall remuneration of the individual Executive Board members will be introduced as from the financial year 2010.

PREPARATION OF SUPERVISORY BOARD MEETINGS AND DECISIONS BY THE COMMITTEES

(in accordance with Code Item 5.3.5)
Given the size of Phoenix Solar AG, the Supervisory Board does not currently deem it necessary to have its meetings prepared by committees.

DEADLINES FOR THE PUBLICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(in accordance with Code Item 7.1.2)
The high quality requirements preclude a publication of the Consolidated Financial Statements within the 90-day period.

Sulzemoos, 19 March 2010
Phoenix Solar Aktiengesellschaft

On behalf of the Executive Board

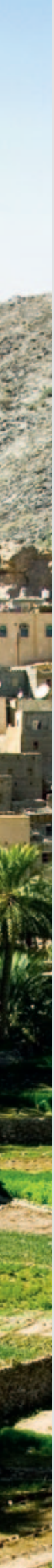
Dr. Andreas Hänel
(Chairman of the Executive Board)

On behalf of the Supervisory Board

J. Michael Fischl
(Chairman of the Supervisory Board)

Bilad Sayt
2:22 p.m.

Country, region: *Oman, Gulf region*
Geo-coordinates: *23° 11’ N 57° 23’ E*
Temperature: *40 °C*
Average solar irradiation per year: *2,020 kWh/m²*



← *Mountain village Bilad Sayt in Wadi Bani Awf*

Measured in terms of solar irradiation, Oman is in the top league worldwide. But this potential for photovoltaic has been left lying fallow for the most part. However, the Gulf State has all the prerequisites for a sunny future. Phoenix Solar has been locally represented since 2009.

Oil and gas are scarce resources – but the power of the sun is not: Thanks to the strategically favourable location, the Sultanate of Oman opens up excellent prospects for a market entry into the countries of the Gulf region.

Oman is one of the most economically and politically stable countries in the region. Summer temperatures of more than 50 °C result in a great deal of energy being used for air conditioning, among other things. The limited reserves of oil and gas have encouraged the country's farsightedness: It is planning the transition away from conventional sources of energy to renewable energies, clearly focused on generating solar electricity.

According to an official study released by the Authority for Electricity Regulation (AER), the average amount of solar irradiation per year is enough to guarantee a reliable supply of energy for the whole country.

Phoenix Solar recognised opportunities in this market at an early stage and is one of the first photovoltaic suppliers in this region. Phoenix Solar L.L.C. was founded at the end of 2009 as a strategic partnership in Muscat, the capital city of the Sultanate of Oman, together with Silver Circle Overseas L.L.C. (SCO), the local partner in Oman. Our activities in Oman and the Gulf region will be concentrated on planning and building turnkey photovoltaic ground- and roof-mounted facilities. These systems can be either linked up to the grid or designed as standalone facilities. An international tender by RAEC (Rural Area Electricity Company) for a photovoltaic-diesel hybrid plant for several locations in Oman in which Phoenix Solar has taken part is on the verge of a decision.

In 2010, there will be more tenders for photovoltaic projects in the Sultanate of Oman and other Gulf region countries. In order to highlight the competence of Phoenix Solar in solar power plants in areas with hot temperatures, we plan to set up our own test facilities.. The resulting insights will enable us to carry out an analysis of economic viability throughout the whole Gulf region, as the solar market, which is starting to gain momentum, offers huge growth potential. Abu Dhabi, for instance, is planning to introduce a 500 MW solar roof programme.

Solar modules in Oman: the power of the sun as an inexhaustible source of energy.

Production of electricity: expanding capacity, also through using photovoltaic plants

The need for electricity throughout the year reflects the climate in Oman and depends to a great extent on the season. The average demand in the summer is more than double that in the winter – ideal conditions for using photovoltaics. Forecasts show growth potential for solar energy as well. To satisfy demand for electricity in 2015, production capacities in the Gulf state must be raised by around 8.5 percent a year, the equivalent of 330 MW.

Source: Oman Power and Water Procurement Company, December 2008

MANAGEMENT REPORT ON THE GROUP

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2009

SUMMARY AND OVERVIEW

For Phoenix Solar AG as well the financial year 2009 was strongly impacted by the global financial and economic crisis and the resulting pressure on the international services and goods markets. In the photovoltaic sector, the impact was first and foremost reflected in tumbling module prices, particularly in the first three quarters. Moreover, very weak international business, especially in the Power Plants segment, burdened the result. Thanks to a very strong fourth quarter and the pleasing development of domestic business the company nonetheless succeeded in lifting consolidated revenues by 17.5 percent to EUR 473.0 million in the financial year 2009. EBIT, which stood at EUR 12.2 million, was considerably lower than a year ago but, following losses in the first three quarters, a good level of profitability was achieved in the final quarter of the year. With an equity ratio of 53.4 percent, Phoenix Solar has a very sound financial base. In 2010, the level of orders on hand, which have improved by 164 percent to EUR 296 million, is a reason for confidence but insecurity stemming from current discussions about amendments to the German Renewable Energies Act (EEG) makes it impossible to give detailed guidance. In view of the generally intact uptrend in the photovoltaic industry, the company holds fast to achieving its long-term goals, specifically revenues of EUR 1.5 billion and an EBIT of EUR 100 million in 2013.

1 SEGMENTS AND ORGANISATION STRUCTURE

1.1 GROUP STRUCTURE AND ORGANISATION

Group structure

Phoenix Solar is a leading photovoltaic system integrator with increasingly international activities spanning the globe. The parent company Phoenix Solar AG was founded on 18 November 1999 and entered into the Commercial Register of the District Court of Munich under HRB no. 129117 on 7 January 2000. The parent company has a total of 11 subsidiaries which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

Locations

Phoenix Solar AG has its principal place of business in Sulzemoos near Munich. The management and control of the company, administration, finance, personnel, central procurement and international logistics, technology and quality assurance, marketing and corporate communication as well as strategy and business development, along with European sales are managed centrally from this location. The subsidiary Phoenix Solar Energy Investments AG, which was integrated over the course of the financial year into the parent company, and the subsidiary Phoenix Solar Fonds Verwaltung GmbH also have their headquarters in Sulzemoos. The Ulm branch comprises parts of the Power Plants segment, namely the Power Plants Sales Germany, power plant construction and the service and control centre (power plant maintenance).

In the financial year 2009, the Phoenix Solar Group founded two new subsidiaries: Phoenix Solar SAS, a company with headquarters in Lyon fully owned by Phoenix Solar AG, has been operating since September and is to serve the French market in the two segments of Components & Systems and Power Plants. Phoenix Solar L.L.C. with its principal place of business in Muscat (Oman) was founded in December, together with a local partner. The activities of this company in which Phoenix Solar AG holds a stake of 70 percent will initially concentrate on the project business with roof-integrated and ground-mounted solar power plants.

At the end of the reporting year, Phoenix Solar AG was represented through its international subsidiaries in Spain (Madrid), Italy (Rome), Greece (Athens), France (Lyon), Australia (Adelaide), Singapore and Oman (Muscat).

Under the name of Phoenix Solar AG Establecimiento Permanente the parent company also operated offices in Madrid for the handling of large photovoltaic projects in Spain. These operations were discontinued at the end of the reporting year as local business was subsequently handled via the local Spanish subsidiary. Phoenix Solar AG also has offices in Singapore. TCP Photoenergy srl and Scarlatti Srl., both companies domiciled in Italy (Eppan an der Weinstraße), are project companies which will be sold to investors upon successful completion of projects. Another project company is constituted by Phoenix SonnenFonds GmbH & Co. KG D4.

Executive bodies of the company

In the year 2009, there were no changes in the executive bodies of the parent company.

1.2 BUSINESS MODEL AND SEGMENTS

Phoenix Solar AG is a leading photovoltaic system integrator with international operations. The company develops, plans, builds and takes over the operation of large-scale photovoltaic plants and is a specialist wholesaler for complete power plants, solar modules and accessories. Phoenix Solar currently conducts business through its subsidiaries on three continents. Along with entry into the core markets of Germany at the end of 1999, the company has forged ahead with its international expansion since the financial year 2006. This is the fourth year in which the growth regions in Southeast Asia have been coordinated from Singapore, and the Middle East has been covered from Oman since last year. The company has been running its business in Australia since 2008, and its market entry into the USA is planned for the first half of 2010.

At the operational level, Phoenix Solar has two business segments, each augmenting the other: the Components & Systems and the Power Plants segments. This structure is replicated in all subsidiaries.

In the Components & Systems segment Phoenix Solar offers customised systems solutions and support in planning, logistics services and additional services (e.g. training, marketing support) as a specialist wholesaler for grid-connected photovoltaic systems and components. Our customers in this segment include retailers and installation companies, such as electrical installation service providers, electronics retailers and wholesalers, heating/sanitary installation companies and roofer companies as well as solar retailers.

The Power Plants segment provides the necessary planning services right through to the turnkey construction of photovoltaic plants in the megawatt range, with follow-up operation and maintenance. At the sales level, the Power Plants segment was divided up into Power Plant Sales and the Investor businesses in 2009. Power Plant Sales acquires orders, for instance, through tendering processes in the capacity of general contractor. Its customers include private individuals and businesses from trading, industry and commerce.

Sales operations relating to “investor” target group for large-scale photovoltaic projects were formerly part of Phoenix Solar Energy Investments AG and, following the subsidiary’s integration into the parent company on 1 January 2009, are now managed under the Solar Energy Investments department. The department serves institutional investors who launch fund models or incorporate large photovoltaic systems into their own portfolios as direct investors.

A very dynamic solar market requires market participants to be extremely flexible. The reasons behind this are swift technological change and rapidly changing customer needs. Phoenix Solar therefore places special importance on having a product and services range which is as broad based and innovative as possible. The company sources modules, inverters and other components independently and on a needs basis. In close cooperation with its suppliers and partners, the company's aim is to optimise this offering and keep it up to date on an ongoing basis in line with market requirements.

1.3 COMPETITIVE ADVANTAGES, STRENGTHS, CORE COMPETENCIES

The Phoenix Solar Group has long-standing experience in the photovoltaic system business and an established business model. Through the early entry of the German Phönix Solar Initiative (an initiative of the Bund der Energieverbraucher e. V. from which the company emerged) into the photovoltaic market in 1998, Phoenix Solar has in-depth knowledge of market conditions and is firmly rooted in the market. This is a distinct advantage in sharpening its competitive edge. Moreover, management is distinguished by its established contacts of many years with companies, sectoral associations and the relevant research institutes.

Phoenix Solar leverages synergies from the link between its two business segments. The synergies between the two business segments reside in the following key areas: technological know-how, product innovation, cost reduction, strengthening of the procurement position and coordinated demand management. In recent years, experience in power plant construction has been increasingly used to develop and optimise systems in the Components & Systems segment, for instance. Along with enhancing its own knowledge base, Phoenix Solar benefits from the close contact with manufacturers. Both factors contributed to optimising the technology used in systems and to lowering system costs. The linking up of both segments also enables the volumes of modules and components sourced to be optimised. A more consistent obligation to take deliveries from manufacturers can therefore be ensured. Demand can be balanced out across segments and countries within the Phoenix Group. This effect enabled inventories in the weaker first quarter of the financial year 2009 to be more effectively pared down. In the fourth quarter, there were bottlenecks in the deliveries of certain modules and components. The manifold options for application made it possible to offer customers alternative solutions in many cases.

Phoenix Solar offers a broad-based and innovative product portfolio which enables the company to cater to a wide variety of different customer needs in a focused and flexible way. Its versatile range includes most particularly solar modules which are based on different technologies. The Phoenix Group is therefore not tied to one module technology but is able to offer photovoltaic systems in line with customer requirements and market developments. Phoenix Solar extends its product range on an ongoing basis by adding new technologies and innovative products. The company was convinced at an early stage that thin-film technologies in particular would play a special role in the market. The cost advantages associated with these technologies were recognised by the Phoenix Group at an early stage and taken into account in the construction of photovoltaic systems. Within the space of a few years, Phoenix Solar therefore developed into one of the leading users of thin-film modules. The global market share of Phoenix Solar in thin-film modules came to 13 percent in 2009.

Phoenix Solar has long-standing and extensive expertise in its Power Plants segment. In recent years, a large number of major power plant projects were realised by the Group. In this process, the company gained additional technical know-how in the planning and installation of large power plants, especially in the use of thin-film technologies. Aided by an intensive exchange of experience with manufacturers, the company is dedicated to raising the efficiency and profitability of solar power plants in order to effectively counteract the cost pressure in the solar industry.

1.4 MANAGEMENT AND CONTROL (GOALS AND STRATEGIES)

The Phoenix Group pursues the strategic objective of securing and strengthening its position in Germany as the leading provider of photovoltaic system technology operating independently from manufacturers. Phoenix Solar is striving to become more independent from state subsidies for photovoltaics, thereby minimising the risks inherent in the current dependency. This is to be achieved first and foremost through lowering costs and through innovations in the planning and construction of systems, through the use of new technologies as well as forging ahead with internationalisation.

Against this backdrop, Phoenix Solar has the following strategic goals:

- Consistent focusing on its core competence in photovoltaic system technology
- Internationalisation of operations
- Extending its range of innovative and competitive photovoltaic modules
- Lowering the cost of photovoltaic systems, thereby promoting the more cost-effective production of solar electricity.

The business model of the Phoenix Group is only comparable with the business models of other listed photovoltaic companies to a limited extent. Phoenix Solar is specialised in system technology. From the standpoint of management, expanding business to include other technologies for generating electricity from renewable energies, such as wind or biomass, or the manufacturing of upstream products, photovoltaic modules for instance, is not expedient in achieving the company's goals.

Management's view is that a business model which concentrates on photovoltaic system technology offers the best growth prospects in the long term. The forecast for the global photovoltaic market in the years ahead is strong expansion with above-average growth rates significantly in excess of 20 percent. The whole Phoenix Group is well positioned in this swiftly growing market to carve out a leading position worldwide. Phoenix Solar will press ahead with developing new markets in the coming years. In the financial year ended, the company's entry into the solar market in the Gulf region was successfully achieved through the founding of a subsidiary in Oman. Phoenix Solar plans to enter the US market by founding its own subsidiary in California in the financial year 2010.

Phoenix Solar strives to attain growth rates which are higher than the average growth of the global photovoltaic market on a long-term basis. This necessitates steadily raising the share in the markets which the Group already covers and accelerating international expansion.

Despite the very difficult environment, Phoenix Solar succeeded in raising installed nominal capacity in the Power Plants segment by 13 percent to 56.1 megawatt peak output (MWp) in the financial year 2009, which led to the company winning considerably greater shares in the markets which it serves. Sales from trading in components and systems grew from 70 MWp in 2008 to 145.9 MWp in the reporting year, which is an increase of 108 percent.

The market share of international markets is to be built up consistently to more than 65 percent of consolidated revenues by the year 2013. Up until 2008 international business was developing as planned: The company succeeded in raising the share of international business in revenues from 4 percent in 2004 to 12 percent in 2006, and then to 40 percent in 2008. Owing to the problematic market environment, especially in the foreign markets covered by Phoenix Solar, the German market dominated the year 2009 with a share of 94 percent.

Processes in system technology are developed and optimised in the Phoenix Group on an ongoing basis with the aim of identifying cost-cutting potential in photovoltaic systems, thus enabling them to be offered on a more cost-effective basis. This active contribution is aimed at enabling plants to achieve economic viability at the earliest possible time without relying on government subsidies and incentive programmes.

Two of the most important ratios used in the management of the Phoenix Group are earnings before interest and taxes (EBIT) and the ratio of EBIT to revenues (EBIT margin). Another parameter used in management and control is return on capital employed (ROCE).

1.5 REPORTING PURSUANT TO SECTION 315 PARA. 4 OF THE GERMAN COMMERCIAL CODE (HGB)

As per 31 December 2009, the share capital of Phoenix Solar AG came to EUR 6,700,700. Share capital is divided into 6,700,700 no-par value bearer shares. All shares have been issued and are fully paid up. There is no claim by the shareholders to individual securitisation. The shares are ordinary shares which grant full co-administration and asset rights. No approval by the company is necessary for the transfer of bearer shares. There were no shares issued with special rights. The company is not aware of any shareholders who hold a direct or indirect participation exceeding ten percent of capital. There is no indirect voting right control exercised by employees.

In the event of amendments to the Articles of Association, the legal provisions of Sections 133 and 179 of the German Stock Corporation Act (AktG) are applicable. The Supervisory Board is empowered to approve amendments to the Articles of Association which only affect the version.

The appointing or dismissal of members of the Executive Board falls under the responsibilities of the Supervisory Board in accordance with legal requirements pursuant to Section 84 et seq. of the German Stock Corporation Act (AktG). The number of Executive Board members and any deputy Board members are determined by the Supervisory Board.

The Annual General Meeting of Shareholders passed a resolution on 19 May 2009 on the authorisation of the Executive Board concerning the option of purchasing and using the shares of the company. Accordingly, the Executive Board is authorised, subject to approval by the Supervisory Board, to purchase shares of the company once or several times in observance of Section 186 para. 3 sentence 4 of the German Stock Corporation Act (AktG) up to a maximum portion of ten percent of the share capital, i.e. up to a total of 668,450 shares, via the stock exchange or by a public purchase offer made to all shareholders and to resell them under defined conditions. The aforementioned amount of shares to be purchased lowers or raises the actual share capital accordingly. The authorisation is valid until 18 November 2010.

On 7 July 2006, the Annual General Meeting of Shareholders authorised the Executive Board, subject to approval by the Supervisory Board, to raise the share capital of the company in the period up to 6 July 2011 through the issuing of new bearer shares against cash and/or non-cash contribution once or several times up to a total of EUR 2,210,500 (Authorised Capital 2006). The Executive Board is authorised, subject to approval by the Supervisory Board, to decide on the exclusion of shareholder subscription rights. Moreover, the Executive Board is authorised, subject to approval by the Supervisory Board, to determine the content of the respective capital increase and the terms and conditions of share issues. The Supervisory Board is authorised to revise the Articles of Association in accordance with the scope of the capital increase. The authorisation was exercised on 12 December 2006 and on 2 April 2008 in a total volume of EUR 607,500. The remaining Authorised Capital 2006 comes to EUR 1,603,000.

Options from the Share Option Plan approved by the Annual General Meeting of Shareholders on 7 July 2006 for members of the Executive Board, members of management of the Group companies as well as selected managers and other service providers were exercised for the first time from September to December 2009. All in all, the number of shares through the exercising of share options rose by 16,200 units to 6,700,700 shares in total. The share capital increased to EUR 6,077,000. More information on the Share Option Plan is provided in the following section 1.6 Remuneration Report as well as in the Notes to the Consolidated Financial Statements.

The share capital can be raised conditionally by up to another EUR 536,300 through the issuing of up to 536,300 new registered shares (Contingent Capital 2006). The contingent capital increase will only be carried out to the extent that holders of subscription rights, issued by the company in the period up to 1 July 2011 as part of the Share Option Plan 2006 in accordance with authorisation given by the Annual General Meeting of Shareholders of 7 July 2006, exercise their subscription rights to the shares of the company and the company grants own (treasury) shares not in fulfilment of the subscription rights. The new shares shall participate in profit from the start of the financial year for which, at the time when the subscription rights were exercised, there was still no resolution passed by the Annual General Meeting on the appropriation of distributable profit.

In the event of a capital increase, profit participation of new shares can be regulated in divergence from Section 60 of the German Stock Corporation Act (AktG).

Since October 2008, there have been commitments in the contracts of two members of the Executive Board, specifically so-called change-of-control clauses, for the event of termination of their activities due to change of control. In the event of a change of ownership, a concentration of at least 30 percent of the voting rights of Phoenix Solar AG placed with the shareholder or third party or through the signing of a company agreement with Phoenix Solar AG as a dependent company, the Board member has the right to terminate his/her contract within a period of three months upon gaining knowledge of this event with a period of six months to the end of the month and to lay down his/her office. In the event of a Board member leaving the company, he/she is entitled to settlement in the amount of a maximum of three years' fixed remuneration and 80 percent of the maximum performance-based remuneration.

1.6 REMUNERATION REPORT

Basic components of the remuneration system pertaining to the Executive Board and the Supervisory Board

In the section below, the basic components of the remuneration system pertaining to the total remuneration of the Executive Board and the Supervisory Board of Phoenix Solar AG, as laid down under Section 314 para. 2 item 4 of the German Commercial Code (HGB), are explained. The remuneration report accords with the provisions set out under the German Act on the Disclosure of Management Remuneration (VorstOG) and the recommendations of the German Corporate Governance Code and itemises the remuneration of the Executive Board and the Supervisory Board.

Executive Board

The members of the Executive Board receive remuneration which is split into fixed and variable components. The performance and the responsibility of the individual Executive Board member is thus remunerated depending on the business situation and the success of the company. The granting of share options is an additional component with a long-term incentive effect geared to the future development of the company.

The total remuneration of the Executive Board in the financial year 2009 is made up of the following components:

a) Fixed remuneration

This component comprises a contractually fixed monthly salary, along with various fringe benefits. For instance, the company provides each Board member with a company car and assumes payment of accident insurance premiums.

b) Performance-based remuneration

The variable remuneration component is made up of the payment of an annual bonus, a premium and the granting of subscription rights to the shares of Phoenix Solar AG. Based on the annual planning, targets are agreed with the Supervisory Board for the payment of bonus and premium. The bonus payment is based on the qualitative and quantitative goals agreed.

The qualitative goals are defined depending on the scope of tasks of the individual Board members and may be both strategic and operational.

There are quantitative goals set for revenues and EBIT at Group level. Revenues and EBIT are weighted one to three respectively for the purpose of calculating to what degree goals have been fulfilled. If the goals are 100 percent achieved, the bonus is paid in full. If performance has fallen short of the goal, the bonus will be lowered on a pro rata basis. A pro rata basis is, however, tied to the minimum level of goals being achieved which must be clearly above 75 percent. This underscores the performance-oriented remuneration system set in place for the Executive Board of Phoenix Solar AG. If, in the respective financial year, the target set for EBIT at Group level is exceeded, a fixed, additional performance premium will be paid.

Share-based remuneration components with long-term incentive effect are granted to the members of the Executive Board under the Share Option Plan of Phoenix Solar AG. In the financial year ended, 45,000 share options were allotted to the members of the Executive Board. The number of subscription rights granted is based on the performance of Board members and the achieving of goals set. The subscription price is calculated from the average of Xetra closing prices of the share ascertained on the five trading days before allotment. The share options may be exercised for the first time upon expiry of two years after the Grant Date (“Waiting Period”). The options can be exercised within a period of five years following the waiting period (“Option Period”). As before, the closing price in the first year when rights can be exercised must exceed the exercise price by 40 percent on ten consecutive trading days. In subsequent years, the exercising of rights necessitates a gain in value of another 20 percent in the respective year. The amounts disclosed under long-term incentive components comprise share options measured at fair value and issued. No payments were made to the members of the Executive Board in the reporting year.

Total remuneration of the now five members of the Executive Board came to kEUR 1,822 in the financial year 2009 (2008: kEUR 2,066). The following table shows itemised remuneration:

Remuneration k€	Fixed components (incl. fringe benefits)	Performance-related components (incl. bonus)	Components with long-term incentive effect (no payment in 2009)	Total
Dr. Andreas Hänel	175 (143)	45 (242)	162 (182)	382 (567)
Manfred Bächler	169 (141)	41 (204)	162 (182)	372 (527)
Dr. Murray Cameron	140 (135)	29 (162)	162 (182)	331 (479)
Sabine Kauper	148 (136)	41 (162)	162 (182)	350 (480)
Ulrich Reidenbach	165 (13)	60 (0)	162 (0)	387 (13)
Total	**797** **(568)**	**215** **(770)**	**810** **(728)**	**1,822** **(2,066)**

(2008 figures in brackets)

There are no pension commitments for the members of the Executive Board. In the event of decease, surviving dependents will receive payment of the salary for a period of six months.

In respect of the content of the change-of-control clauses agreed in Board member contracts, reference is made to Section 1.5. Reporting pursuant to Section 315 para. 4 of the German Commercial Code (HGB).

No loans have been granted to the members of the Executive Board.

Supervisory Board

The remuneration of the Supervisory Board was determined and approved pursuant to Article 11 of the Articles of Association by the Annual General Meeting of Shareholders on 7 July 2006. The remuneration comprises a fixed and a variable, performance-based component, thereby taking account of the work of the members of the Supervisory Board and the business situation of the company.

a) Fixed remuneration

The members of the Supervisory Board receive an amount of EUR 5,400 in remuneration at the end of the year. The Chairman of the Supervisory Board receives three times this amount and his deputy one and a half times. As a fringe benefit, the company undertakes payment of accident insurance premiums for the Supervisory Board members. The members of the Supervisory Board receive EUR 500 each for attendance at meetings of the Supervisory Board and of the committees.

Each member of the Supervisory Board receives an additional annual fixed remuneration of EUR 1,500 for his membership in one or several committees of the Supervisory Board. The chairman of the Committee receives twice the amount. If the chairman of the committee of the Supervisory Board is also Chairman or Vice Chairman of the Supervisory Board, he will receive the additional annual remuneration in the amount fixed for membership in one or a number of committees of the Supervisory Board.

b) Performance-based remuneration

The Supervisory Board members receive an additional annual bonus based on the EBIT ascertained from the separate financial statements of Phoenix Solar AG. This bonus comes to EUR 750 per EUR 1.0 million of the average EBIT achieved in the last three years. Also in this case, the Chairman of the Supervisory Board receives three times this amount and his deputy one and a half times. The remuneration of the Supervisory Board does not include a long-term component geared to the success of the company.

There were no consultancy contracts between the company and the members of the Supervisory Board. Similarly, the Supervisory Board members were not granted a loan by the company.

All in all, the remuneration of the members of the Supervisory Board came to kEUR 214 in 2009 (2008: kEUR 188). Remuneration has been itemised in the following table (net amounts excluding VAT):

Remuneration excl. VAT k€	Fixed components (incl. fringe benefits)	Performance-related components (incl. bonus)	Components with long-term incentive effect	Total
J. Michael Fischl	24	40	0	64
	(23)	(36)	(0)	(59)
Ulrich Fröhner	17	20	0	37
	(15)	(18)	(0)	(33)
Ulrich Th. Hirsch	14	14	0	28
	(12)	(12)	(0)	(24)
Prof. Dr. Klaus Höfle	14	14	0	28
	(12)	(12)	(0)	(24)
Dr. Patrick Schweisthal	14	14	0	28
	(12)	(12)	(0)	(24)
Prof. Dr. Thomas Zinser	15	14	0	29
	(12)	(12)	(0)	(24)
Total	**98**	**116**	**0**	**214**
	(86)	**(102)**	**(0)**	**(188)**

(2008 figures in brackets)

2 OVERVIEW OF PERFORMANCE IN THE FINANCIAL YEAR ENDED

2.1 GENERAL CONDITIONS

Macroeconomic trends

The general economic environment for the business activities of the Phoenix Solar Group deteriorated in the reporting year. The global economic and financial crisis also burdened the international services and goods markets. Although falling energy and commodity prices resulted in lower inflation rates, the slowdown in demand from industry and consumers had an initially negative impact on the global development of business. This negative trend was only halted and reversed at a low level over the course of the year through government economic stimulus programmes and the injection of additional liquidity by a number of central banks.

In the wake of the recession, especially in the first half of 2009, gross domestic product (GDP) in the euro zone was negative, posting 4 percent, following the slight growth in the previous year of just under one percentage point.

The economic downturn over the course of the year was especially evident in export-dependent Germany: GDP contracted by a price-adjusted 5 percent in comparison with the years 2008 and 2007 when there was a plus of 1.3 percent and 2.5 percent respectively. Despite a slight recovery from the third quarter onwards, foreign trade slumped by 14.7 percent and gross fixed capital formation fell by 8.7 percent in the year 2009. The only positive impetus came from domestic consumption comprising private consumption which climbed by 0.4 percent and government spending which rose 2.7 percent.

The European target markets of Phoenix Solar AG were also in recession in 2009. Owing to the particular circumstances prevailing in the individual countries, GDP in France and Italy, which came to – 4.7 percent respectively, was only marginally better than in Germany. By contrast, the development of economic output in Greece (– 1.1 percent) and Spain (– 2.2 percent) was less negative.

Asia was also unable to decouple from the global economic downturn. Although the growth markets of Asia achieved a rate of 4.5 percent in 2009, the pace of growth had slowed considerably in comparison with 2008 (+ 7.8 percent).

Development of the photovoltaic sector

The year 2009 was a huge challenge for the photovoltaic sector. The industry had to respond to unprecedented fluctuations in demand. Business was only able to commence at a later date in 2009 owing to a long, hard winter. The decline in prices, which persisted through to the middle of the third quarter, also caused a distinct reluctance to purchase. Potential buyers of photovoltaic systems speculated on the prices falling further and postponed their investments accordingly. From the third quarter onwards, there was an exceptional surge in demand.

The Spanish market, which was still the global leader in 2008 with peak output installed totalling 2,439 MWp, collapsed in the wake of the considerable reduction in feed-in tariffs as well as through the introduction of a market cap of 500 MWp. Only 125 MWp were installed in the country in the reporting year. In all other markets of the Phoenix Solar Group, such as Italy and Greece, development was initially hesitant.

In the context of the change of government in Germany, there were discussions about a potentially greater reduction from 2010 onwards in government subsidies promoting solar energy which resulted in upfront buying effects, thereby triggering significant growth in the German market from the third quarter of 2009 onwards. According to initial estimates, newly installed output in the Federal Republic of Germany rose from 1,650 MWp in 2008 to potentially around 3,000 MWp in 2009.

By contrast, demand in other key markets of the Phoenix Solar Group fell considerably short of expectations over the course of the year 2009. The Italian market, for example, edged up from 338 MWp in 2008 to 374 MWp in 2009.

The sharp increase in the production capacities of solar modules, the end of the Spanish boom, the hesitant development of other important photovoltaic markets, the long, hard winter in the first quarter of 2009, compounded by financing problems in the power plant business, resulted in higher volumes of solar modules available in the market through to the third quarter of 2009. From the third quarter onwards, the surge in demand, led first and foremost by the German market, served to reduce the oversupply. In the Components & Systems segment there were the first bottlenecks, combined with capacity shortfalls in installation companies. This constellation prevented an even stronger year-end rally in Germany.

Procurement market

For the first time since 2003, the availability of solar modules improved significantly in 2009. Production capacities were ramped up across the whole value chain. In combination with the severe winter in 2009 and greater reductions than ever before in feed-in tariffs in Germany as the most important solar market in 2009, this caused appreciable price declines. The downtrend in prices began in the fourth quarter of 2008 and continued through to the middle of the third quarter of 2009. The price situation was exacerbated by the global financial crisis, liquidity shortfalls on the part of individual manufacturers and buying restraint in the German market. At its most extreme, the decline in prices came to more than 30 percent.

The greatest challenge for purchasing and procurement of the Phoenix Solar Group in the financial year 2009 was therefore to respond to the initial downturn in prices and the extreme reticence on the part of customers to buy while, at the same time, ensuring the greatest possible scope for smooth procurement ready for a recovery in demand. Along with negotiations being conducted at that time with a number of suppliers, Phoenix Solar had several long-term supplier agreements at the start of 2009. To adjust procurement operations to swift changes in market conditions, these agreements were either renegotiated or redrafted and signed in terms of volumes, delivery times, price and payment modalities.

Owing to its long-standing, good supplier contacts, the Phoenix Solar Group succeeded in responding appropriately to the uncertainties and difficulties arising from the extreme fluctuations in sales and thus in the procurement market in 2009 with flexible solutions which also enabled its supplier relationships to remain stable.

All in all, the procurement volume of modules in 2009 came to around 207 MWp, mostly for thin-film modules.

The procurement strategy of the Phoenix Solar Group needs to ensure a generally balanced product portfolio which covers a wide range of different module technologies. Products in the portfolio are to be used depending on the requirements in the trading business (Components & Systems segment) as well as in power plant construction. This approach serves to optimise procurement volumes, reduce inventories more swiftly and enables warehousing to be flexibly managed. Of the solar modules procured in 2009, almost 95 percent could be used flexibly between the Components & Systems segment and the Power Plants segment. In terms of inverters, the degree of flexibility is lower due to the varying requirements placed on size.

In module procurement, Phoenix Solar has a geographical spread which balances the supplier base and combines strong European manufacturers with the advantages of more favourable production conditions in the Far East. Suppliers in China and Japan who had not secured supplies through long-term contracts benefited in particular from falling raw material prices, especially of that of silicon.

The product portfolio was extended to include new technologies in the reporting year. The innovative, light cylindrical CIGS thin-film modules from Solyndra, a supplier based in California, were added to the portfolio. These are particularly suitable for roof application where statics and low area loads play a decisive role.

The thin-film modules of the manufacturer making up the major portion of the volume sourced by Phoenix Solar in the reporting year are partly manufactured in Germany, with the largest proportion being delivered from Malaysia. Thin-film modules for Phoenix Solar AG's own brand come from Japan.

In the case of crystalline modules, the majority of suppliers are domiciled in China and Japan, alongside modules made in Europe which are also purchased by Phoenix Solar.

As part of a long-term foreign currency hedging strategy, potential currency risks are hedged through forward transactions in Japanese yen and US dollar.

In the purchasing of components, Phoenix Solar cooperates with renowned manufacturers of inverters. All in all, procurement in this area went very smoothly in 2009, with a few delivery bottlenecks only in the fourth quarter. However, combination with other solar modules enabled alternative solutions in the selection of inverters to be offered to customers in the majority of cases.

Discussions about changes in the feed-in tariffs in Germany in the run-up to the federal elections in September 2009 caused uncertainty among customers and led to up-front buying effects in 2009. In 2010, the legislator is expected to lower the feed-in tariffs over the course of the year. In close consultation with its member companies, the German Solar Industry Association (BSW) also worked out a proposal for a moderate reduction to take effect on 1 July 2010 and submitted it to the politicians. Phoenix Solar is actively engaged in discussions within the Association and has regular meetings with politicians.

In 2010, the global market is expected to expand rapidly, with Europe as the main driver, led by Germany, followed by Italy and France. The US market where Phoenix Solar intends to establish itself in 2010 through a subsidiary is likely to gain distinct momentum in the second half of 2010. In the Far East, China, India and Japan will remain the economic engines of the solar industry.

Phoenix Solar is well positioned to benefit from this strong growth. In 2009, the necessary personnel resources and capacities were built up across the entire company, including the areas of procurement and logistics, despite the initially difficult environment.

German sales market

Since coming into force in 2000, the EEG has been instrumental in accelerating the expansion of photovoltaics in Germany. Its contribution to the production of electricity has risen from 1 gigawatt hour (GWh) in 1990 to around 4,000 GWh in 2008. The contribution of photovoltaics to generating electricity has therefore grown to 1 percent of the total electricity supply within the space of a few years.

The swifter lowering of the feed-in tariffs approved in the subsequent amendment to the German Renewable Energies Act entered into force on 1 January 2009. Under this amendment, remuneration for solar electricity fed into the grid fell by 8 percent for plants of dimensions below 100 kilowatt peak output (kWp) and by 10 percent for power plants of over 100 kWp and for ground-mounted systems.

The feed-in tariff for roof-integrated systems of more than 1 MWp fell considerably by 25 percent. The tariffs for solar electricity fed into the grid in Germany therefore range from 31.94 cent per kilowatt hour (ct/kWh) for ground-mounted systems through to 43.01 ct/kWh for electricity generated by roof-integrated systems which are below 30 kWp. Moreover, as from 1 January 2009, a bonus of 25.01 ct/kWh for photovoltaic electricity for own use from systems smaller than 30 kWp was introduced.

In the first three quarters of the year 2009, development in the German photovoltaic market was impacted by the global economic and financial crisis. The financing of large-scale power plants with an output of more than 1 MWp was especially problematic. This was compounded by the tumbling prices of solar modules which had a deflationary effect, meaning that customers hoping that prices would fall further held back on purchasing.

The extreme downturn in the price of modules which, at its worst, was in excess of 30 percent, only came to a halt in the third quarter of 2009. During this period, there was a recovery in demand for all classes of photovoltaic systems which even accelerated in the fourth quarter. The year-end rally typical of the seasonal business in the industry was fuelled additionally by speculation about an imminent reduction in the promotion of solar energy in 2010 which occurred around the time of the federal elections.

International sales market

The development of the Southern European markets Spain, Italy and Greece fell short of expectations in 2009. In the first three quarters in particular, any progress made was only hesitant as market constraints such as financing shortfalls, bureaucratic hurdles and problems in connecting up to the grid had not been sufficiently resolved. Nonetheless, the backlog of processing in government approval agencies in Greece and Italy was released.

Market development in France was much more dynamic, not least owing to a bill which was enacted at the start of 2010. This formed the basis for a significant improvement in feed-in tariffs in the northerly departments where there is lower solar irradiation. Further incentives are offered through tax relief in the form of, for instance, income tax credits. The aim of the French government is to raise the share of renewable energies in overall energy requirements to 20 percent by 2020.

In Greece an amendment to the law which provides for an improvement of feed in-tariffs for small photovoltaic systems came into force in June 2009. In September, the Slovak Republic introduced new feed-in remuneration. The new feed-in regulation discussed in Great Britain in 2009 was approved at the start of 2010. New or improved subsidy programmes in Bulgaria and Turkey were initiated in 2009 but have not yet been adopted.

There was fresh impetus for the photovoltaic market outside of Europe as well in the course of the year 2009. At the start of the year, the Japanese government extended its existing promotion programme. China launched two programmes supporting solar energy in the second half of 2009. Moreover, the Chinese province of Jiangsu introduced feed-in tariffs ostensibly for three years.

As part of a national plan, India envisages building up the electricity generated by photovoltaics in the country to a peak output of 20 gigawatts (GWp) by 2020. In the first phase, an output of up to 1.5 GWp is to be achieved by 2012. In addition, a feed-in tariff for the whole country was introduced in December for an initial expansion target of 50 MWp. The Indian regulatory authority has, however, expressed the intention of adjusting the programme in terms of tariffs and capacity ceilings in the future should this become necessary.

Since the election of the new US president, there are high expectations in the country for the development of the framework conditions relating to renewable energies which have taken a centre stage in the American Recovery and the Reinvestment Act. At a national level, however, there has as yet been no reform of the existing supporting programmes in the USA. By contrast, progress has been made at federal and local level which consists in the introduction of feed-in tariffs in Vermont, Hawaii, Gainsville/Florida and Sacramento/California.

In October, an incentive programme with extremely attractive feed-in tariffs subject, however, to the condition of creating high local value added, was launched in the Canadian province of Ontario under the Green Energy Act.

Share price performance

Phoenix Solar AG has been listed on the official market of the Frankfurt Stock Exchange since 27 June 2006 and fulfils the transparency standards required by Prime Standard. The company was admitted to the TecDAX, the technology index of Deutsche Börse, on 25 March 2008.

The number of shares outstanding on 31 December 2009 came to 6,700,700. A description of the share price performance, key data and other information on the share of Phoenix Solar AG can be found in the annual report in the section entitled Phoenix SonnenAktie® (the share of Phoenix Solar AG).

2.2 EARNINGS, FINANCIAL POSITION AND ASSETS

Highlights

- Revenues grow by 17.5 percent to EUR 473.0 million
- EBIT comes to EUR 12.2 million (– 64.0 percent as against the previous year)
- Operating cash flow lifted from EUR – 23.6 million to EUR + 21.6 million
- Equity increases to EUR 97.3 million

Earnings

Despite the unabated financial crisis, the Phoenix Solar Group raised revenues to EUR 473.0 million in an extremely difficult economic environment and has thus achieved the highest annual revenues in the history of the company. The operating result declined from EUR 33.8 million to EUR 12.2 million and consolidated net income from EUR 23.7 million to EUR 8.6 million.

The temporary adjustment of procurement prices from a long-term agreement with a module manufacturer to reflect existing market conditions had a positive effect on earnings. The signing of an addendum to the agreement which is to run until mid-year 2010 resulted in a significant reduction in the cost of purchasing goods which, in turn, considerably improved the gross profit margin.

The EBIT margin (ratio of EBIT to revenues) of the Phoenix Solar Group, which is one of the Group's most important parameters for management and control, contracted from 8.4 percent a year ago to 2.6 percent in 2009.

Summarised income statement in a year-on-year comparison	2009 k€	2008 k€	2007 k€	2006 k€
Revenues	473,032	402,494	260,118	118,994
Change in inventories	– 16,872	16,872	0	0
Total operating performance	456,160	419,366	260,118	118,994
Other operating income	3,897	3,699	1,144	1,134
Cost of materials	414,371	356,492	220,881	103,146
Personnel expenses	16,017	12,478	7,956	4,833
Depreciation and amortisation	667	425	313	236
Other operating expenses	16,844	19,867	9,908	7,144
Result from associated companies	18	20	55	17
EBIT	12,176	33,823	22,259	4,786
Financial result	– 1,242	– 378	– 687	6
EBT	10,934	33,446	21,572	4,792
Income tax	2,379	9,767	7,101	1,766
Share of non-controlling interests in the result	0	20	10	– 2
Net income	8,555	23,699	14,481	3,024

Analysis of revenues

The development of revenues over the course of 2009 was characterised by a weak first half-year and a sharp increase in the second half of the year. In the months from July to December the previous year's figure was exceeded by 28 percent. In the fourth quarter alone, 48.8 percent of annual revenues were realised. During the first six months when revenues were only slightly above the year-earlier level, earnings were generated first and foremost by the Components & Systems segment whereas business in the Power Plants segment only revived after the third quarter.

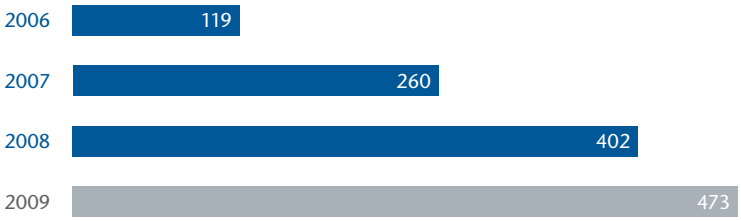
The increase in revenues by 17.5 percent to a total of EUR 473.0 million was borne by domestic business which contributed around 94 percent (2008: 60.3 percent) to revenues. International business, which benefited greatly from projects in the Spanish market in 2008, has slumped dramatically since the amendment to the law on feed-in tariffs in this country.

The share of the foreign subsidiaries in consolidated revenues came to around 3 percent in total. Most gratifying was the development of Phoenix Solar Pte. Ltd., Singapore, which raised its share in consolidated revenues by 0.9 percent in the reporting year, up from 0.2 percent in 2008.

The Components & Systems segment generated revenues of EUR 299.0 million, thus exceeding the previous year's figure (EUR 214.6 million) by 39.3 percent. The Power Plants segment achieved revenues of EUR 174.0 which corresponds to a decline of 7.4 percent in a year-on-year comparison (EUR 187.8 million). In terms of total revenues, Components & Systems therefore accounted for approximately 63 percent (2008: 53.3 percent) and the Power Plants segment for around 37 percent (2008: 46.7 percent).

Over the course of 2009, module price declines came to more than 30 percent at their most extreme which, given steady merchandise volumes, would have led to a concurrent downturn in revenues. A compensation of the impending loss in revenues was made partly by way of selling higher volumes in megawatt, particularly in the Components & Systems segment, and raising sales from 70.0 MWp in 2008 to 145.9 MWp in 2009. The Power Plants segment lifted sales from 49.7 MWp in 2008 to 56.1 MWp in 2009.

Development of revenues in a year-on-year comparison in €m

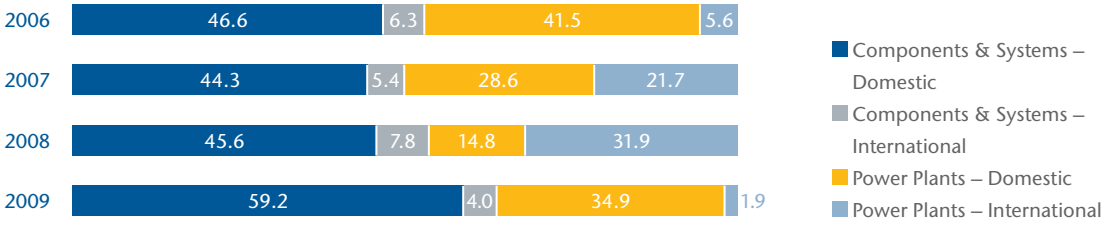


Order situation

Orders on hand as per 31 December 2009 came to EUR 296 million (including orders in process of EUR 61.8 million), which is an increase of 163.8 percent as against the year-earlier figure (EUR 112 million). The majority of the order book was attributable to the Components & Systems segment which accounted for 62 percent.

Owing to the decision still outstanding on the modification of the Renewable Energies Act in Germany, there may be changes in the order level. This may be the case if there are premature and decisive reductions in feed-in tariffs which give rise to uncertainty of buyers in respect of their expectations of return on photovoltaic plants being initially fulfilled.

Percentage distribution of revenues in a year-on-year comparison



Individual items in the income statement

CHANGE IN INVENTORIES

The change in inventories item comprises settlement for a photovoltaic plant built in Germany in 2008 for which a purchase agreement was signed in the reporting year. At the start of the reporting year, the project was still reported under own inventories, and the resulting feed-in remuneration had partly been received by the Group.

OTHER OPERATING INCOME

In the year under review, other operating income rose to EUR 3.9 million as compared with the previous year's figure of EUR 3.7 million. This included income from feed-in remuneration of around EUR 1.1 million from projects completed ahead of schedule.

COST OF MATERIALS/GROSS PROFIT

The cost of materials rose from EUR 356.5 million in 2008 to EUR 414.4 million in the reporting year. The increase of 16.2 percent was substantially lower than revenue growth. The share of the cost of materials in revenues therefore declined from 88.6 percent in the previous year to 87.6 percent. Measured against total operating performance, the cost of materials came to 85 percent in 2008 and 90.8 percent in the reporting year.

Owing to high inventory levels, the Phoenix Solar Group was only able to benefit from the tumbling prices of modules, which shed more than 30 percent at their lowest point, from the middle of the third quarter onwards. These were inventories from former deliveries and purchase obligations from long-term agreements in the first half-year in respect of which no price adjustments had yet been made. To reflect market-oriented selling prices, however, it became necessary to carry out downward value adjustments which caused gross profit to fall.

Over the course of the year, procurement succeeded in agreeing temporary subsequent price discounts with a manufacturer with a long-term delivery agreement for thin-film modules sold and installed in Germany. The price discounts served to partly ease the burden again on gross profit.

PERSONNEL EXPENSES

Even against the background of the financial crisis, the Phoenix Solar Group consistently pursued its long-term growth strategy in 2009 and continued to invest in developing its structures. The area most greatly affected was personnel. In the reporting year, 79 employees were hired under permanent contracts (seven of whom work in countries outside Germany). As per 31 December 2009, the Phoenix Solar Group had 276 employees, including the Executive Board and temporary staff, 243 of whom were permanent employees.

Higher workforce numbers resulted in a rise in personnel expenses from EUR 12.5 million in 2008 to EUR 16.0 million in the reporting year, which is an increase of 28 percent. Despite this considerable rise, the personnel expense ratio (= personnel expenses measured against revenues) remained relatively constant at 3.4 percent in comparison with the previous year's figure (3.1 percent).

The average number of employees came to 240 staff members in 2009 (including five Executive Board members) as compared with 196 in 2008. The ratio of revenues to full-time equivalent employees (full-time equivalent FTE) came to kEUR 1,974 in the year under review (2008: kEUR 2,392).

DEPRECIATION AND AMORTISATION

Depreciation and amortisation relates to writedowns on intangible assets and property, plant and equipment. As the business model of Phoenix Solar AG necessitates only a low ratio of fixed to total assets, disclosures of property, plant and equipment are mainly office furniture and equipment and equipment installed by the tenant in the premises.

As against the previous year, depreciation and amortisation climbed from kEUR 425 to kEUR 667, which is 57 percent. This increase is primarily attributable to investment in office furniture and equipment required for setting up new workstations.

OTHER OPERATING EXPENSES

Other operating expenses have fallen appreciably to EUR 16.8 million in 2009, down from EUR 19.9 million. This decline clearly reflects the measures to reduce costs stringently implemented on the basis of cost analyses and target/performance comparisons carried out during the year. In addition, there was a decline in specific valuation adjustments to receivables (EUR – 2.7 million for the parent company

alone). The expenses incurred by international project development fell by EUR 0.6 million. The year-on-year increase in revenues of 17 percent is also reflected in a number of variable costs. Sales commissions for partners rose by EUR 0.9 million, and rental costs and fees for professional services by EUR 0.7 million respectively.

RESULT FROM ASSOCIATED COMPANIES

As per 31 December 2009, Phönix SonnenFonds GmbH & Co.KG B1, in which Phoenix Solar AG holds a stake of 31.2 percent, was valued as an associated company using the at-equity method. The proportion of the result of the associated company due to the Phoenix Group stood at kEUR 17.8 (2008: kEUR 19.7).

FINANCIAL RESULT

The financial result dropped by EUR 0.9 million to EUR – 1.2 million. This item included financial gains of EUR 0.4 million (2008: EUR 0.7 million) mainly attributable to price gains from derivatives hedging transactions closed for delivery agreements on the basis of Japanese yen and US dollar.

Financial expenses of EUR 1.7 million (2008: EUR 1.1 million) result first and foremost from interest expenses incurred by the current syndicated loan agreement and an additional so-called waiver fee for temporarily falling below one of the covenants specified in the syndicated loan agreement.

TAX RATE

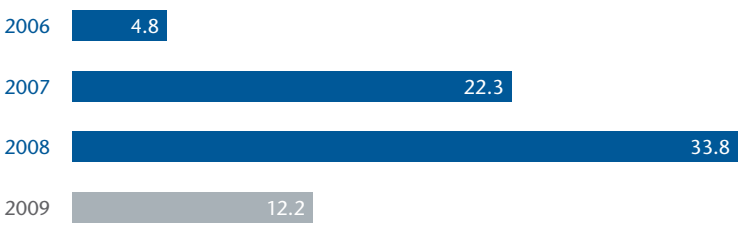
The tax rate in the financial year ended was mainly influenced by local taxation rates. Appropriate deferrals for differences in recognition and measurement for the purposes of accounting under IFRS and the statutory provisions on income tax were carried out whenever necessary.

Income tax expenses of EUR 2.4 million in the financial year 2009 (2008: EUR 9.8 million) are EUR 0.5 million lower than the expected income tax expenses of EUR 2.9 million which would have theoretically resulted from the application of the domestic tax rate of 26.7 percent (2008: 26.7 percent) to the pre-tax profit of the Group.

GROUP EARNINGS BEFORE INTEREST AND TAXES (EBIT)

Earnings before interest and taxes of the Group came to EUR 8.6 million which is considerably lower than the previous year's figure of EUR 23.7 million, mainly due to the aforementioned burdens from declines in the price of modules. Based on an average figure of 6.7 million shares, basic earnings per share calculated come to EUR 1.28 (2008: EUR 3.63). Diluted earnings per share fell from EUR 3.62 in 2008 to EUR 1.28.

Development of Group EBIT in a year-on-year comparison in €m



2.3 DEVELOPMENT OF THE BUSINESS SEGMENTS

Components & Systems (domestic and international)

The sales focus of the Components & Systems segment continued to be on Germany in 2009. In Italy, Belgium, Austria, France, Spain and Greece there are other markets for small and mid-sized photovoltaic systems which are serviced by Phoenix Solar. Phoenix Solar is represented in these markets either through its own subsidiaries or through regional partners, as is the case, for instance, in Belgium. Since the coming into force of Royal Decree RD 1578/2008, market development has been very slow in Spain. However, given the relatively favourable conditions for small and mid-sized roof-integrated systems, the prospects for this segment improved in the fourth quarter of 2009. The Common Ministerial Decision in Greece, enacted in June 2009, should simplify the approval process for the construction of small photovoltaic systems, which has also provided stimulus in the last three months.

In the year 2009 as a whole, the distribution business (Components & Systems segment) continued to record strong growth. Total revenues climbed 39.3 percent to EUR 299.0 million in comparison with the year-earlier period (EUR 214.6 million). The segment contributed 63.2 percent to total revenues (2008: 53.3 percent).

Orders on hand of the Components & Systems segment posted EUR 184 million as per 31 December 2009 as against the year-earlier figure of EUR 34 million. Revenues from domestic business came to EUR 183 million, which is 472 percent higher in a year-on-year comparison. The order book for international business stood at EUR 0.4 million on the reporting date (2008: EUR 1.7 million). Against the backdrop of the aforementioned sharp decline in prices, the sales volume is therefore 108 percent above the level of the previous year.

Power Plants (domestic and international)

Both revenues and the development of the order volume throughout the reporting year fell considerably short of expectations in the Power Plants segment. The decline in revenues and earnings from international projects in particular (share in segment sales of 5.1 percent in 2009 down from 68 percent in 2008) was only partly compensated for by projects in Germany. The majority of annual revenues (50.1 percent) was generated in the fourth quarter.

All in all, segment sales stood at EUR 174.0 million in the reporting year which is a decrease of 7.4 percent in comparison with a year ago (EUR 187.8 million). Segment sales were considerably impacted by the price decline in photovoltaic projects in the German market. As against 2008, installed output rose from 49.7 MWp to 56.1 MWp in 2009. Revenues generated from domestic business came to EUR 165.1 million which is an increase of 178.0 percent in a year-on-year comparison. By contrast, revenues generated from international business dropped by 93.1 percent to EUR 8.9 million (2008: EUR 128.4 million).

The downturn in revenues is primarily attributable to the unusually strong market for large-scale photovoltaic plants in Spain in 2008. In order to benefit from the especially good conditions under Royal Decree 661/2007, photovoltaic systems had to be connected up to the grid by the end of September 2008, which caused revenues to peak in the third quarter of 2008.

By the end of the year, photovoltaic power plants with a total peak output of 3.8 MWp had been installed in countries outside Germany. In comparison with the same period in 2008 (26 MWp) this is a decrease of 85.2 percent.

Owing to a long, hard winter, part of the projects in Germany were only commenced with a delay in the reporting year. Revenues in the first and third quarters in particular fell appreciably short of expectations as projects could not be brought to the construction stage due to lack of financing or because

customers put off the final purchasing commitment owing to the deflationary price trend. This backlog only eased over the course of the third quarter. The main factors driving this development were, on the one hand, that the deflationary price spiral came to a halt and, on the other, because the imminent turn of the year with the lowering of the feed-in remuneration no longer brooked further delay.

In Germany, a series of power plants with 52.3 MWp were built and connected up to the grid or construction commenced, including Germany's largest carport project in Berlin with an output of 1 MWp. Phoenix Solar AG's largest project to date of 8 MWp is still under construction on an old military airbase in eastern Germany.

The realisation of the first MWp project in Italy was delayed by bureaucratic hurdles, which have still not been dismantled, and uncertainty as to the binding assessment under the law of the legal validity of official approvals as well as deficits with project developers. Construction work could therefore only start in January 2010.

Contrary to planning, commencing the construction of other major projects in Greece in 2009 was also not possible owing to delays in approvals and financing, among other factors. No large-scale photovoltaic plants were built in Spain during the reporting year as opposed to France where the first 1.6 MWp plant was built on behalf of a subsidiary of the energy utility E.ON in the fourth quarter of 2009.

Orders on hand of the Power Plants segment came to EUR 112.5 million as per 31 December 2009. The domestic order book came to EUR 84.3 million which is higher than the previous year's level (EUR 67.5 million). At the end of the reporting period, international orders posted EUR 28.2 million which is an increase of 155 percent compared with 2008. The available order book (orders on hand adjusted for revenues from power plant projects under construction already capitalised) posted EUR 50.6 million on 31 December 2009, and was thus 31 percent below the year-earlier figure (EUR 73.1 million).

The Ulm Power Plants Service Centre had raised its portfolio of connected power plants to 49 power plants with a peak output of 96 MWp (2008: 70 MWp) by the reporting date.

2.4 FINANCIAL POSITION

Summarised consolidated cash flow statement in a year-on-year comparison	2009 k€	2008 k€	2007 k€	2006 k€
Consolidated net income before income taxes	10,934	33,446	21,572	4,792
Cash flow from operating activities	21,583	– 23,628	4,789	– 14,907
Cash flow from investing activities	– 3,064	– 2,459	– 1,537	– 1,016
Cash flow from financing activities	– 1,593	19,620	– 420	7,023
Net changes in cash and cash equivalents	16,926	– 6,465	2,831	– 8,900

Principles and goals of financial management

The Phoenix Solar Group has geared its financial policy and, accordingly, its financial management strongly to its growth targets. The aim of this policy is to have sufficient financial reserves available at any time in order to secure the solvency of the Group. In ensuring the timely and economic supply of funds, financing from internal funds has clear precedence over the procuring of external capital.

The aim is always to manage working capital as efficiently as possible. The underlying basis is a multi-year financial planning and a weekly rolling liquidity plan with a horizon of three months respectively. The financial management of the Group is centrally managed by Phoenix Solar AG to keep financing costs to a minimum and to guarantee compliance with any loan covenants. The monitoring, planning

and control of financial risks to safeguard operational success is the task of centralised Group Treasury.

In the case of long-dated supply agreements for modules, the influence of fluctuations in foreign exchange rates, particularly against Japanese yen and the US dollar, are hedged by the appropriate transactions. The hedging of exchange rate risks is transacted in relation to the underlying; a speculative use of hedging transactions is not permitted.

Financial analysis

With a view to strengthening the liquidity cover of the Phoenix Solar Group and for the purpose of financing growth activities, a syndicated loan agreement with a volume of EUR 150 million was signed in 2008. The loan agreement has a term of three years and can be utilised in the form of both cash and guarantee drawdowns. Compliance with the covenants under the syndicated loan as well as the management and control of the determinant factors of influence are monitored on an ongoing basis.

One covenant was breached temporarily in the third quarter owing to delays in projects and the tumbling price of modules. The levying of a so-called waiver fee customary for averting a breach of contract served to reinstate the covenant by the end of the year and the relevant new covenant condition had been complied with by the reporting date of 31 December 2009.

In addition, there were further guarantee lines of EUR 28 million available, bringing the credit limit to a total of EUR 178 million. Of this amount, drawdowns of EUR 37.39 million had been made by the reporting date.

The syndicated credit line of EUR 150 million is limited until 19 November 2011, and the additional guarantee lines of EUR 28 million have been made available until further notice.

Cash and cash equivalents of the Phoenix Solar Group came to EUR 24.5 million in total as per 31 December 2009, which is an increase of EUR 17 million as against the previous year (EUR 7.5 million). The liquidity of the Group was guaranteed at all times during the year under review.

Cash flow from operating activities

Cash inflow from operating activities rose to EUR 27.9 million in the reporting year, minus interest paid of EUR 1.5 million and income taxes remitted of EUR 4.9 million. Along with the successful development of profit in 2009, optimised working capital management resulted in cash flow from operating activities of EUR 21.6 million. More detailed information is included in the consolidated cash flow statement forming part of the financial statements.

Cash flow from investing activities

Cash outflow as part of the investing activities of the Group came to EUR 3.0 million. Alongside the customary purchase of fixed assets, such as office furniture and equipment, capital commitment was attributable to the vehicle fleet or low-value assets as well as licenses for intangible noncurrent assets such as the project launched in the financial year for the implementation of an ERP (Enterprise Resource Planning) solution customised for the Group with completion and operational readiness scheduled for the start of 2011.

Cash flow from financing activities

There was a cash outflow of EUR 1.6 million from financing activities in the reporting year due mainly to the dividend distribution of EUR 2.0 million carried out in the spring of 2009.

Assets and capital structure

Total assets came to EUR 182.2 million as per 31 December 2009. In comparison with year-end 2008 (EUR 127.8 million), they have therefore risen significantly by EUR 54.4 million.

Noncurrent assets reported a slight increase of EUR 4.0 million to EUR 9.3 million. This includes the purchase of intangible assets and investments in property, plant and equipment of EUR 3.3 million in the reporting year which caused noncurrent assets to rise by EUR 2.6 million.

Current assets climbed by EUR 50.5 million to EUR 172.9 million in a year-on-year comparison. This development is mainly attributable to an increase in receivables from long-term construction contracts which rose from EUR 0.7 million to EUR 41.1 million during the reporting period. The reason behind this was the significantly higher number of projects under construction commenced either in the fourth quarter of 2009 or completed shortly before the end of the quarter.

Equity advanced from EUR 89.3 million to EUR 97.3 million, owing in particular to consolidated net income. A countereffect was first and foremost the distribution of gross dividend amounting to EUR 2.0 million. In relation to the now higher level of total assets, the equity ratio came to 53.4 percent (2008: 69.9 percent) on 31 December 2009.

The increase in borrowing from EUR 38.4 million to EUR 85.1 million is mainly due to trade payables which rose from EUR 14.6 million to EUR 51.7 million. This increase is a reflection, on the one hand, of plants under construction and payments to suppliers for products and services not yet paid and, on the other, of payments not yet effected for goods in transit (module supplies).

Summarised consolidated balance sheet in a year-on-year comparison	**2009**		**2008**		**2007**		**2006**	
	k€	**%**	**k€**	**%**	**k€**	**%**	**k€**	**%**
Assets								
Noncurrent assets	9,346	5.1	5,333	4.2	5,331	6.9	3,145	5.8
Current assets	172,886	94.9	122,430	95.8	71,771	93.1	50,864	94.2
Total assets	**182,232**	**100.0**	**127,763**	**100.0**	**77,102**	**100.0**	**54,009**	**100.0**
Shareholders' equity and liabilities								
Equity	97,264	53.4	89,311	69.9	47,326	61.4	33,346	61.7
Noncurrent liabilities and provisions	3,083	1.7	2,307	1.8	4,089	5.3	758	1.4
Current liabilities and provisions	81,885	44.9	36,145	28.3	25,687	33.3	19,905	36.9
Total assets	**182,232**	**100.0**	**127,763**	**100.0**	**77,102**	**100.0**	**54,009**	**100.0**

3 RESEARCH AND DEVELOPMENT

Along with improving product features and quality, the main focus of Phoenix Solar AG is on lowering the cost of the whole system: Only by reducing the costs across all links in the value chain, which means not only photovoltaic modules but also system components and installation, can system costs be lowered, as provided for indirectly under the EEG or comparable market launch programmes in the form of lowering feed-in tariffs.

Moreover, market maturity as well as the future prospects of new products or those which have been developed further are screened in an ongoing process. Important criteria are technological maturity, cost-cutting potential and economic viability in a market environment which is subject to constant change. In this way, technological trends and developments can be identified at an early stage and the product portfolio of the Phoenix Solar Group adjusted accordingly.

In the reporting year, the focus of attention was on the analysis and assessment of new system technology concepts and components, particularly with a view to the technical and climatic requirements in dry regions. Moreover, assembly frames for new markets such as France, for instance, were modified or newly developed.

4 EMPLOYEES

The number of employees reflects the development of the Phoenix Solar Group. On 31 December 2009, the number of people working for the group (excluding freelancers) came to 276 which is an increase of 71 persons in comparison with the end of 2008. Growth in personnel was greatest in Germany where the increase came to 70 employees (Executive Board members, permanent employees and temporary staff); the number of employees in foreign subsidiaries rose by one employee.

The area of personnel and change management is becoming increasingly important in the process of the company's development. At the end of the financial year, this area was aligned accordingly to reflect the Groups future goals.

Employee retention and the development of expert staff and managers is to be placed more clearly at the heart of personnel work in future. Phoenix Solar is to be further developed as a successful employer brand. In addition, strategic emphasis will be placed on the areas of organisational development and change management. A constant process of building up flexibility into the organisation needs to be the response to swiftly changing requirements in the market. Following its realignment, the department will therefore position itself as a strategic business partner to the specialist departments and foreign subsidiaries. This internal realignment is also aimed at covering the area of talent management and the identification and promoting of potential high-performers at an early stage on a sustainable basis.

The strategic realignment of the Phoenix Group necessitates actively adjusting to the standards on quality and continuous professional development. Resources and capabilities which are difficult to find in the market or which cannot be found at all are to be developed in our own ranks. An employer brand should distinguish itself through professional training and further development. To satisfy these requirements the "Phoenix Competence Centre" was set up in the year under review. This unit is a development and training centre which ensures that uniform qualification measures and standards are set in place and applicable throughout the whole Phoenix Solar Group. Along with Phoenix employees, the Centre is also available to external partners who pay a fee for its services. Training is carried out by the internal and external experts of the various specialist departments. The new Centre is to function as an

active driver for the swift gaining of market shares in the international quality segment. As an interface between market/customer and primarily technologically oriented internal innovation, the Centre stands as a learning process facilitator for the following areas:

- specialist training
- qualification programmes
- consultancy function for premium partners and customers

As in previous years, Phoenix Solar supports the training of young people through professional vocational training and has six trainee positions (2008: four). Vocational training covers the professions of wholesale and foreign trade merchant, office clerk and electronics technician for energy and building services. The retention rate came to 100 percent.

To ensure that Phoenix Solar remains an attractive and dynamically growing employer the company again took part in the "Great Place to Work" competition. This time employees in international locations were also part of the survey. As in the previous year, the contributions and results will be relevant as benchmarks for ongoing internal development and improvement in many areas.

Phoenix Solar's declared aim is to develop and build on outstanding expertise already embedded along the whole value chain, from purchasing across project development through to construction and maintenance, both in Germany and abroad. In its personnel development programme, it is Phoenix Solar's intention to make a contribution to shaping and securing the supply of energy on a more sustainable basis.

5 CORPORATE SOCIAL RESPONSIBILITY

In its business and relationships the Phoenix Solar Group regards human rights and the environment as some of our greatest assets. The Phoenix Group only markets and sells products which, when used, contribute to protecting the climate. Photovoltaic systems generate energy from sunlight. The plants operate virtually silently and do not emit damaging substances. During their useful life they generate twenty times more energy than is used in their construction. Photovoltaic systems therefore make an important contribution to reducing CO_2 emissions and to achieving an energy mix which is compatible to the greatest extent possible with the climate.

In carrying out construction work on the photovoltaic power plants of the Phoenix Solar Group all nature conservation and environmental covenants from construction plans are adhered to, controlled and monitored. Environmental standards are even exceeded: The assembly frames for ground-mounted PV plants, for instance, do not require any concrete foundations. Surfaces are therefore not sealed and can be reused again upon full decommissioning. Regulations on construction work issued by the NABU (German association for the protection of nature) and of the BSW (German Federal Association of Solar Energy) are complied with.

In the financial year 2009, complex processes in power plant construction were implemented pursuant to ISO 9001 (quality assurance) and ISO 14001 (environmental management) and verified. The respective certifications were granted in December. Phoenix Solar therefore fulfils the highest industry standard in power plant construction. In addition, a health safety environment procedure was introduced for international projects. Suppliers of Phoenix Solar AG must produce evidence of a quality assurance process.

Energy conservation and the sustainable handling of raw materials in everyday work has the highest priority in the Phoenix Solar Group. At the heart of the management system is the defining of internal

workflows and responsibilities and the training of those responsible on the regular control and improvement of environmental aspects within the company.

Electricity is sourced from a so-called "green electricity" supplier. Since January 2007, the offices in Sulzemoos have been heated by a wood chippings thermal power plant. In erecting new buildings and carrying out renovation the emphasis is on using environmentally compatible building materials. The vehicle fleet is subject to guidelines on engine capacity, fuel consumption and CO_2 emission. Moreover, the drivers receive training on how to reduce fuel consumption. Delivery routes and rhythms in are also coordinated with the suppliers with a view to reducing CO_2 emission. Almost all manufacturers with which Phoenix Solar cooperates work on professional systems for taking back and recycling modules (PV CYCLE) or have their own recycling programmes.

Along with the economical use of paper, the paper quality of all print material, such as our annual report and catalogues for instance, is carefully selected. The manufacturers of the paper bear the seal of the Forest Stewardship Council (FSC). Climate-neutral procedures are preferred in the printing process. Office material is sourced mainly from an ecologically sound retailer.

Accessories for Phoenix Solar turnkey plants are custom-made by two workshops staffed by disabled people in the area.

Phoenix Solar AG supports humanitarian associations, schools, sports associations and the protection of historical buildings, mainly in the region, by making donations. This includes a nationwide educational project entitled "House of Little Scientists" which is designed to encourage children of kindergarten-age to engage in natural science and technology. Phoenix Solar also supports the Watoto Project in Mekaela Academies, Kenya, through a donation. A photovoltaic plant scheduled for construction on the roof of the Lulu High School is to provide electricity for the school building in Ukunda as well as contributing to physics classes.

6 OVERALL STATEMENT ON THE ECONOMIC SITUATION

In the financial year 2009, Phoenix Solar was unable to decouple fully from the effects of the most severe global recession for 80 years. The Group nonetheless succeeded in setting a new record with a sales volume of 202 MWp, despite the difficult framework conditions, and won notable market shares in the face of a slowdown in the growth of the global photovoltaic market. Although the annual targets communicated at the start of the year were not achieved because of the drastic downturn in module prices, performance in the year 2009 was nonetheless satisfactory overall.

Phoenix Solar responded consistently and swiftly to challenges in the economic environment. Thanks to a forward-looking procurement policy strong fluctuations in demand in the market were balanced out for the most part. Forging ahead with the internationalisation of business since 2006 also contributed to compensating for declines in individual regional markets through winning new customers on now three continents. The financing structure and good liquidity base ensured that operations were fully and soundly financed throughout the year. The recovery in the economic environment and discussions about amendments to the feed-in tariffs in Germany prior to and after the federal elections in September 2009 led to up-front buying back in 2009. As a result, orders on hand had risen considerably by the end of the year. The good growth prospects in the whole photovoltaic industry and ongoing internationalisation planned for the current year are reasons for confidence about the financial year 2010. With this in mind and despite the considerable decline in profit in 2009, the Executive Board and Supervisory Board will put forward a proposal for the distribution of dividend of EUR 0.20 per share for the reporting year.

7 SIGNIFICANT EVENTS AFTER THE REPORTING DATE

In its meeting on 3 March 2010, the German Federal Cabinet approved a bill for the amendment of the German Renewable Energies Act. The amendments proposed were approved as a formulation aid for the coalition parties in the Bundestag. The Union and FDP coalition will put this draft through the parliamentary procedure as their own bill before the end of March. The approved bill will implement the agreement reached by the government coalition on adjusting measures to promote solar electricity, as follows:

The feed-in tariffs for photovoltaic systems on buildings will fall by a one-off amount of 16 percent this year. Feed-in tariffs for ground-mounted photovoltaic systems on redeveloped areas will be lowered by a one-off 11 percent and by 15 percent on other areas. The provisions will enter into force on 1 July 2010.

Electricity generated by plants located on what was formerly farming land will receive no remuneration if the plant is commissioned after 30 June 2010. The exception to this rule are plants which are part of development plans approved before 1 January 2010 and taken into operation before the end of 2010.

The time limit on the remuneration of ground-mounted systems through to 1 January 2015 has been abolished. This will mean that electricity generated by plants taken into operation after 31 December 2014 will also be remunerated in the future.

In order to reflect the substantial decrease in costs and prices in the area of electricity production from solar radiation energy the digression in remuneration rates will also be more strongly adjusted to reflect market development. At the same time, the cap on the annual market volume of solar radiation energy is to be raised to 3,000 MW. Depending on the plant output registered by the German Federal Network Agency, digression used to diverge by one percentage point either to the positive or to the negative, based on a starting point of 9 percent. Under the new provision, digression will remain constant at 9 percent given additional capacity of 2,500 to 3,500 MW, as in the past. For each additional 1,000 MW of capacity started and exceeding this corridor, digression will rise by 2 percent in 2011 and by 3 percent in 2012. If additional capacity is under the lower range of 2,500 MW, digression will fall by 2.5 percentage points for each 500 MW by which the corridor is undershot.

Electricity generated by photovoltaic systems for private use is to be promoted more strongly for unlimited periods up until 31 December 2011. On the one hand, the existing provision has been extended, with the result that not only electricity from small photovoltaic systems up to 30 kW of installed output can be used directly but also that electricity from large roof-integrated systems up to and including an output of 800 kW can now be used; on the other hand, remuneration for own consumption has been raised from formerly 3 ct/kWh to 8 ct/kWh.

8 RISK REPORT

8.1 RISK MANAGEMENT

Risk policy

The risk policy of the Phoenix Solar Group is geared towards safeguarding the company as a going concern and raising enterprise value on a sustainable basis. As all entrepreneurial activity by its nature entails opportunities and risks, the Group's risk strategy covers both components. Accordingly, in the sphere of its core competencies, the company consciously enters into controllable and manageable risks if there is commensurate reward. Risks in other areas are avoided wherever possible.

Risk management system

The risk management system of the Group serves to identify, control and manage risks which occur. Above and beyond risks to the company as a going concern, activities, events and developments are recorded by the system if they might exert a significant influence on the success of the company's business in the future. The objectives, processes and distribution of tasks in the context of risk management are documented in the Risk Management Manual of Phoenix Solar AG.

Existing, newly identified and potential risks are reported to the risk manager by a defined group of employees responsible for risk in interface functions in the form of a standardised risk inventory list as part of an ongoing process. The individual risks on this list are classified according to the probability with which they may occur, the amount of potential loss and the extent to which they can be influenced. The risk manager conducts an analysis, assessment and documentation of the risks and informs the risk officers and the Executive Board. The risk officers review the risk assessment and determine measures for counteracting the risk. These measures are subsequently communicated by the risk manager to all the relevant parts of the company and to those responsible for risks.

Insurances have been taken out where available and economically viable to limit any potential financial impact. The scope and amounts of these insurance policies are reviewed on an ongoing basis.

The internal control and risk management systems pertaining to the Group accounting process

The main features of the internal control system and risk management system set in place at Phoenix Solar AG pertaining to the (Group) accounting process can be summarised as follows:

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

The hard- and software used as well as the data are protected against unauthorised access by the relevant IT security measures. An adequate system of guidelines (e.g. accounting guidelines, payment guidelines, travel expenses guidelines) has been implemented and is updated on an ongoing basis. The departments and units involved in the accounting process are suitably equipped in quantitative and qualitative terms and adjusted in a timely way to changes within the company, whenever appropriate. Accounting data received or relayed is checked consistently for completeness and accuracy by way of random samples, for instance. Plausibility checks are carried out by the software on payment runs, for example. Moreover, in processes relevant for invoicing, the principle of dual control is always applied. Selected processes relevant for invoicing are reviewed by Internal Audit which is independent of these processes.

The internal control and risk management system (in relation to the accounting process) ensures that entrepreneurial transactions are properly captured and accounted for and correctly mapped in the accounting system. The suitable staffing, the use of adequate software and clear statutory provisions and internal instructions provide the basis for a due and proper, uniform and continuous accounting process. Clear segregation between the different areas of responsibility as well as the various control and monitoring mechanisms (especially plausibility checks and the principle of dual control) ensure a correct and responsible accounting system. These are the specifics which ensure that business transactions are captured, processed and documented in accordance with statutory provisions, the Articles of Association and internal guidelines, as well as mapped in a timely and correct fashion in the accounts. At the same time, this ensures that the assets and liabilities shown in the annual and consolidated financial statements are recognised, disclosed and measured appropriately and that reliable and relevant information is presented in a comprehensive and timely way.

8.2 MATERIAL AREAS OF RISK

The potential impact of the global financial and economic crisis, especially on the procurement and sales market risks confronting the Phoenix Group, are identified, observed and assessed on an ongoing basis. Since the start of the crisis they have been a focal point of risk management within the Group. The management and control of the potential consequences of the crisis, particularly in connection with the growth-induced increase in the number of suppliers and customers, is carried out through the consistent building up of receivables management and supplier control with an integral component of credit standing monitoring.

Political factors

The status quo and development of national photovoltaic markets are fostered or hindered to varying degrees by legislation. In the case of long-term digression models, such as provided for under the EEG, reductions in feed-in tariffs which cannot be compensated for by more favourable procurement and selling prices may result in a lower return from new photovoltaic systems and therefore a loss in their appeal to potential buyers. Radical changes in the underlying legal framework, a prime example of which was the Spanish decree on feeds-in tariffs in 2008, may prevent market growth or may even cause markets to shrink, thereby jeopardising the future of the companies.

To lower the risk inherent in the great dependency on the development of individual and large markets, Phoenix Solar AG consistently pursues its strategy of internationalisation which serves to meet the challenge of the ongoing debate about the restrictions of the EEG and the expected negative impact on the development of the German market, which is currently the largest market, also for Phoenix Solar AG.

Market, competition and external factors of influence

In its business of wholesale trading in components and systems, the Phoenix Group is active in a market environment where barriers to market entry are considered to be relatively low. The number of competitors (domestic and foreign enterprises) may therefore increase. Fierce competition, as emerges with the better availability of modules, is often accompanied by a decline in the prices which can be commanded. This may exert a considerable impact on the volume growth, sales revenue and the success of the company.

Moreover, the potential expiry of the option of recourse from guarantee claims existing in relation to suppliers could also place an additional financial burden on Phoenix Solar AG.

A trend reversal towards higher interest rates would have a directly negative impact on the return of photovoltaic systems with a high proportion of financing with external capital. A persistent and unbroken development of this kind may cause demand on the investor side to fall.

Owing to the global financial crisis, the financing of photovoltaic plants by banks is becoming discernibly more restrictive, which causes delays in the realisation of planned projects. Moreover, the likelihood that the search for suitable investors may become more difficult and more time intensive cannot be discounted.

In cases where Phoenix Solar itself holds the project rights for the construction of photovoltaic plants, there may be individual instances when plant construction by Phoenix Solar has begun before financing by banks has been set in place by the buyer. This approach helps the Group to avoid idle capacity in the power plant construction but nonetheless also harbours the risk of liquidity shortfalls due to delays in incoming payments from customers. Particularly in the southern European countries customers are increasingly requiring the furnishing of earnings guarantees with the corresponding compensatory provisions in the event of underperformance.

The strong expansion of the Group, both in Germany and abroad, requires a great deal of capital. The risk of future liquidity shortfalls caused by cash flow fluctuations therefore needs to be contained. To this end, the company has, on the one hand, built up stringent liquidity controlling and, on the other, secured a syndicated loan in 2008 with a three-year term for the medium-term financing of the Group. If the covenants associated with this loan are not fulfilled, the syndicate banks may terminate the credit line. In the main, the covenants pertain to consistent compliance with an interest rate cover agreed with the syndicate as well as compliance with a lower limit on equity, and equity capital ratio which rises over the term of the loan agreement. If the covenants are not fulfilled, there is a risk that growth which has been planned cannot be realised due to financing shortfalls. For this reason, the Group monitors compliance with the covenants in order to secure the prerequisites under which credit is granted and, in the event of divergence, to be able to take countermeasures in good time.

One covenant was breached temporarily in the third quarter owing to delays in projects and the tumbling price of modules. The levying of a so-called waiver fee customary for averting a breach of contract served to reinstate the covenants by the end of the year and the relevant new covenant condition had been complied with by the reporting date of 31 December 2009.

Procurement risks

Fluctuations in demand affecting volume and falling prices may put individual suppliers into financial difficulties. Asserting claims against an insolvent supplier has little chance of success. This may result in risks for Phoenix Solar AG, especially if modules are sold after the manufacturer warranty has expired and the end customer can assert direct liability.

With the aim of securing its own supplies and to stabilise prices, Phoenix Solar AG has availed itself of long-term supply agreements with module manufacturers for years. In times when the market is impacted by bottlenecks in the supply of modules, this was an effective instrument for securing opportunities in the market and for growth. With the advent of an oversupply in modules, long-term agreements impair the swiftness of a response to falling market prices. Furthermore, the risk of having higher inventory levels from obligations to take deliveries, in conjunction with the risk of inventory devaluations to reflect market-oriented selling prices, rises.

If the parent company has to fulfil its obligations up to the minimum purchase volume at prices which are not in line with the market, without being able to sell components delivered in excess of the threshold of its own costs, this would have a substantially negative effect on the earnings, financial position and net worth of the company.

A continued decline in the price of modules in subsequent years, accompanied by a lack of flexibility on the part of contractual partners in subsequent rounds of negotiations, may mean that existing module delivery agreements become so disadvantageous for Phoenix Solar that forming anticipatory provisions becomes necessary.

Phoenix Solar minimises this risk, on the one hand, through active management of its sales activities in its two core segments of Power Plants and trading in Components & Systems as well as, on the other, by conducting regular negotiations with suppliers. Partners for this type of long-term agreement are carefully selected, with Phoenix Solar placing special importance on qualitative aspects and attractive prices as well as on the willingness to cooperate and the adjustability of terms to changing market conditions.

Technical innovations and, back at the manufacturing stage, their compatibility with the environment in terms of how modules and other components forming part of photovoltaic plants are used are becoming increasingly topical issues for the public at large. The acceptance yardstick for environmental compatibility is always the latest technical standard achieved. The Phoenix Solar Group places great emphasis on this aspect in the composition of its portfolio. The possibility of products not being able to fulfil future standards cannot, however, be discounted. In this case, the company may be faced with additional financial burdens.

Financial risk management

The aim of financial risk management at Phoenix Solar AG is to limit all risks through ongoing activities at the operational and financial level. Selected derivative hedging instruments are used depending on the assessment of risk. However, only the risks which could have an impact on the cash flow of the Group are hedged. Derivative financial instruments are used solely as hedging instruments, i.e. they are not used for trading or other speculative purposes.

The fundamental features of the financial policy are analysed once a year by the Executive Board, updated and established whenever appropriate, and monitored by the Supervisory Board. The implementation of the financial policy and the corresponding risk management are the tasks of Group Treasury. Certain transactions particularly relevant for the company require the prior approval of the Executive Board which is additionally kept regularly informed of the scope and the amount of risk incurred. The Phoenix Solar Group is exposed to currency risk because its business strategy is geared towards international markets which are becoming increasingly important for the company. Treasury therefore regards the effective management of the currency risk as one of its core tasks which it fulfils through an actively managed currency hedging strategy.

Risks from a loan agreement with a variable interest rate are contained by the Group by way of an interest-rate swap which serves to guarantee planning certainty for the residual term of the loan agreement.

Risks from foreign currencies are hedged if they have an impact on the Group's cash flow. By contrast, currency risks which do not affect the cash flow of the company (i.e. risks which result from the translation of the assets and liabilities of foreign entities into the Group's reporting currency) are fundamentally not hedged.

At the operating level, currency risks arise in particular from planned payments denominated in a currency other than the functional currency for the procurement of modules.

In order to limit or avoid these risks, derivatives are used for hedging purposes. The Group always uses forward exchange transactions, swaps and forex options in order to secure payments in advance against currency risks through to the following financial year.

Accordingly, Phoenix Solar AG is exposed to market risk from certain forex derivatives. These are currency derivatives which serve to hedge underlying transactions and planned transactions. The currency fluctuations underlying this type of financial instrument affect other operating income and expenses (valuation result from the adjustment of financial assets to fair value).

Currency risks, particularly in respect of deliveries based on the US dollar or Japanese yen, are managed by the Group through having a broad-based product and supplier portfolio which enables it to choose between options, also at short notice.

Legal and fiscal aspects

The Phoenix Solar Group may be involved as a party in litigation and other court cases in the normal course of business.

This is first and foremost applicable to court cases against customers because of unpaid invoices or claims asserted by customers or suppliers against the company. Provisions are formed for litigation if it is probable that an obligation (legal or arbitration costs) may arise and the amount can be reliably estimated. The provisions formed may be insufficient, which would have a detrimental effect on the earnings, financial position and result of operations of the Group. Changes in the fiscal and legal rules and regulations prevailing in individual countries where the Group operates may lead to a higher level of tax expenses and to higher income tax payments. Tax risks may also arise from the difference treatment of business transactions by local tax authorities in respect of groupwide netting prices applied to intra-group deliveries and services. This would have an impact on capitalised deferred taxes. The tax authorities responsible announced a tax audit on Phoenix Solar AG for the fourth quarter. This may give rise to financial risks for the Group.

Company growth

The future expansion of the Phoenix Solar Group, particularly in respect of project development and the construction of photovoltaic plants abroad, is subject to much greater risks than in Germany. This affects primarily development costs and time as well as the completion of plants. Particularly in the case of stepping up efforts to tap new markets, delays and higher costs as against the original, intentionally conservative planning cannot be entirely discounted. Company expansion on the back of growing business activities is a growing challenge for the structure and central administration units of the company. As the adjustment of these two units has not yet been able to keep pace with the progress of growth at the operational level, there may be temporary organisational risks owing to the delay in building up appropriate administration resources. The founding of new subsidiaries abroad raises the need for managers in the local sales companies, with the associated induction and acclimatisation periods before full effectiveness can be achieved. Furthermore, expansion in countries outside the EU harbours a significantly higher risk in respect of legal and political factors. This type of risk is difficult to assess and may lead to unforeseen cost burdens.

Personnel

Qualified employees and managers are a key success factor of the Phoenix Solar Group. The swift growth of the company in particular necessitates a rising number of experts to secure and reinforce the company's market position long term. The risk of not finding such top performers for open positions in the company or of losing competent job incumbents is combated by the Group through a series of measures. Phoenix Solar is positioning itself as an attractive and modern employer while, at the same time, actively promoting the long-term retention of employees within the Group, also through continuous professional development and an attractive incentive system for managers.

Information technology

The central business processes of subsidiaries and of the whole Group are highly dependent on IT processes and activities. For this reason, information technology is subject to an ongoing process of monitoring, particularly in respect of securing the expediting of business processes. In this task, the company draws on the services of an external data protection officer. As this security is not a static status but a continuous process, the IT infrastructure is regularly updated and developed further, whenever appropriate. With this in mind, the implementation of a new ERP system reflecting current requirements was initiated in the reporting year. The system will contribute to forging a much stronger link between all areas and functions of the company and to optimising information processing.

The implementation process may give rise to risks from data loss during migration from predecessor and old systems. The testing mechanisms set up in the implementation and data migration process aim to counteract this risk but there can, however, be no full guarantee of security.

8.3 OVERALL RISK/RISK OF GOING CONCERN

The overall risk situation continues to be contained and manageable, as before. Moreover, from today's standpoint there are no discernible risks, either individually or in their entirety, which could endanger the Group as a going concern.

9 OUTLOOK

Economic framework conditions: global economy set to expand again in 2010

In the opinion of International Monetary Fund (IMF) experts, the year 2010 will see the global economy continue to recover. The IMF anticipates a growth in the global economy of 3.9 percent in the current year. The economic growth of the industrial nations has been estimated at 2.1 percent.

Growth in the USA has been forecast at 2.7 percent in 2010. According to IMF estimates, Germany, which will post a growth of 1.5 percent, will fall short of these figures. In the European target markets of Phoenix Solar, these estimates predict that Spain will bring up the rear in 2010 with a contraction of annual economic output of 0.6 percent. France's economic output is expected to grow by 1.4 percent. In Italy, the expected growth rate is 1 percent. Greece is likely to see a decline of 1 percent. These forecasts are, however, debatable. In 2010, Greece will have to allow the European Union to manage its budget. Greece has to reduce its government spending in order to bring about the required reduction of debt.

The IMF anticipates a more dynamic growth of 8.4 percent in the high-growth countries of Asia in 2010. China is expected to be the economic engine again with an increase of 10.0 percent.

The recovery in the global economy is likely to lead to an increase in the price of commodities. IMF experts anticipate an annual average rise in oil prices of 22.6 percent as against 2009. Inflation is not expected to trigger any great risks. Consumer prices are expected to have climbed by a mere 1.3 percent by mid-year.

Experts emphasise that the global economic upswing is still accompanied by risks. Especially the period following the expiry of the extensive economic stimulus packages is uncertain. Credit institutions also still face challenges owing to the persistently high level of necessary writedowns. Accordingly, many experts expect there to be bottlenecks in the granting of loans which companies need for investments. This risk might be exacerbated by the end of the low interest rate policy expected by some experts at the close of 2010. The anticipated rise in unemployment constitutes another risk factor for economic development.

Outlook for the sector

In 2009, the solar market underwent an unprecedented shift in the balance between supply and demand. The oversupply of solar modules, starting with the final quarter of 2008, sent prices sliding by partly more than 30 percent in the European markets through to the middle of the third quarter. The slump in prices was way in excess of manufacturers' cost reductions. As from the third quarter onwards, demand soared, especially in the German market, with the result that, in many cases, customer wishes for delivery and installation of photovoltaic systems by year-end could no longer be fulfilled. All in all, analyst estimates for market development in 2009 ranged from a slight market contraction through to a market growth of around 20 percent.

In 2010, it can be assumed that the dramatic slump in the price of solar modules will not continue to the extent seen in the previous year. In contrast to 2009, the price trend in the current year is likely to be determined by the development of feed-in tariffs. The major European markets will exert a special influence here, especially Germany as the leading market in Europe and worldwide. In 2009, the domestic market absorbed around 44 percent of the global production of solar modules.

Owing to proposals to lower the feed-in tariffs in Germany (see also Significant Events after the Reporting Date) currently discussed at the political level, there are expectations that the reduced feed-in tariffs will have to be partly compensated by lower prices.
Despite the decline in feed-in tariffs throughout Europe, it is likely that the global market will grow swiftly

in the years ahead. In a piece of research published in January 2010, the Commerzbank anticipates that the global market might exceed the threshold of 10 GWp for the first time in 2010, which would correspond to a market growth of almost 50 percent. According to their research, global market growth may accelerate to 17 GWp in 2011, which would represent an even stronger growth of around 70 percent.

Phoenix Solar also anticipates a significant growth in the solar market in the next two years but sets growth in the global market in 2010 within a more conservative range of between 8 and 9 GWp. The most important growth markets will be Italy, France, Bulgaria, Japan and the USA. Germany will remain the world's leading market in 2010 as well.

Driven first and foremost by roof-integrated plants, the German market has the potential of even exceeding the market volume generated in 2009 of around 3 GWp. However, the lowering of the feed-in tariffs during the year gives rise to expectations that the customary steady rise to date in revenues over the course of the year will not be repeated. Instead Phoenix Solar assumes that there will be two distinct peaks in revenue in 2010: the first time just before the coming into force of the premature lowering of the feed-in tariffs and a second time at year-end, prior to more sharp reductions in feed-in tariffs on 1 January 2011. After the first revenue peak which, in the light of current knowledge, is anticipated at the end of June, revenues can be expected to decline notably in the following eight to twelve weeks.

Expected development of the Group

Phoenix Solar has set itself the strategic goal of growing more swiftly than the global market. As there is no reliable information for global market revenues, guidance has been based on forecast module sales in MWp. In relation to module sales, Phoenix Solar has way exceeded the trend in the global market in the reporting year. With a growth in sales volumes from 120 MWp in 2008 to 202 MWp in the current year, sales volume have risen by 68 percent. In the opinion of analysts, the global market by contrast – as already mentioned – has grown by 20 percent at maximum.

In 2010, it should be possible for the Phoenix Solar Group to achieve another strong growth in volume. With an assumed price decline in solar modules of around 10 percent, revenues are expected to be significantly higher than in 2009. The earnings situation is also likely to improve appreciably in 2010.

Whereas the share in international revenues in 2008 made up around 40 percent, there was a temporary focusing on the German market in 2009. As a result, the proportion of international business fell to below 6 percent. In 2010, the emphasis will be on expanding international business again. To this end, the European subsidiaries have been strategically realigned and streamlined in organisational terms to tap the markets more efficiently. The first revenues are also to be generated in European markets where Phoenix Solar does not have its own subsidiaries (e.g. Eastern Europe).

Phoenix Solar expects revenues to grow steadily in the years ahead on the back of the dynamic growth anticipated in the global market. On 27 January 2009, the Executive Board released its long-term outlook for the development envisaged for the company up until the year 2013. In this outlook it anticipates consolidated revenues of EUR 1.5 billion and an EBIT of EUR 100 million. The share of international business is to rise to more than 65 percent. The Executive Board adheres to this outlook.

Development of the segments

The development of the segments is a major part of planning. The Components & Systems and Power Plants segments augment each other ideally and enable the equitable adjustment of solar module quotas if there should be a period in one of the segments when business is weak. So as not to restrict this flexibility, the Executive Board does not consider it expedient to publish guidance for the segments.

More exact guidance on revenues and EBIT at Group level for the year 2010 is not expedient at this point in time. Above all, the results of political discussions about the amendment of the EEG, along with uncertainty about macroeconomic developments, must be awaited. Only then can corporate planning take place and reliable guidance be derived.

Dividend policy

Phoenix Solar AG pursues the goal of a shareholder-oriented dividend policy which accords with company growth and the respective business situation. In recent years, dividend payment was raised steadily from EUR 0.10 to EUR 0.30 per share. Against the background of weak business in the financial year ended, with a consolidated net income which was much lower year on year, the Executive Board plans, pending approval by the Supervisory Board, to propose payment of a dividend of EUR 0.20 per share.

Given the momentum typical of the photovoltaic market, it is possible that future results anticipated by the Executive Board may diverge from today's expectations.

Sulzemoos, 9 March 2010
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
Chief Executive Officer

Sabine Kauper
Chief Financial Officer

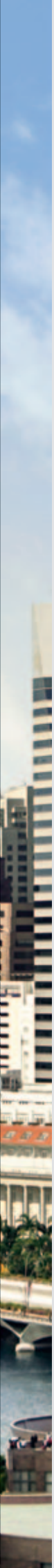
Dr. Murray Cameron
Chief Operating Officer

Manfred Bächler
Chief Technology Officer

Ulrich Reidenbach
Chief Sales Officer

Singapore
6:22 p.m.

Country, region: *Singapore, Southeast Asia*
Geo-coordinates: *1° 17' N 103° 51' E*
Temperature: *27 °C*
Average solar irradiation per year: *1,634 kWh/m²*



← *Singapore business district with Esplanade concert hall*

The need for energy in the urban centres of Asia is growing and the conditions for photovoltaics are ideal. Phoenix Solar has been strengthening its activities in this region since 2006: One of the outstanding current flagship projects is the solar power plant on the roof of Changi Airport, Singapore.

A project of an exemplary nature: As the first airport in Southeast Asia, Changi Airport in Singapore uses photovoltaic for its own supply of energy.

The conventional supply of energy can hardly keep pace with the growth in the countries of Asia. A growing awareness of the environment is bringing sources of renewable energy increasingly to the forefront. We recognised this potential at an early stage and, by founding a subsidiary in Singapore in 2006, laid the cornerstone for successful expansion in the Asia/Pacific region.

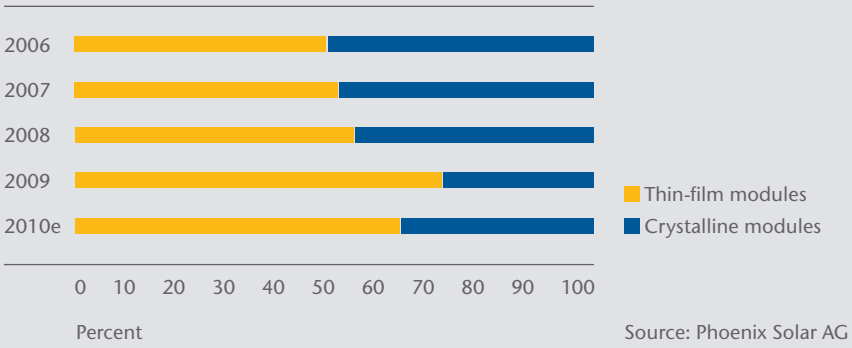
The solar power plant on the roof of Singapore's Changi Airport is one of our flagship projects with international standing. Phoenix Solar won the contract for this project in an international tender in which many competitors participated. We began construction work in autumn 2009. The plant was built on the north and south side of the Budget Terminal on a roof surface area of around 2,500 square metres and was connected up to the grid in February 2010. In the process of construction, 127 kWp of First Solar thin-film modules and 123 kWp of REC polycrystalline modules were installed using our own Tecto-Sun assembly system. High-quality sensors provide reliable measurements of factors of influence, such as external and module temperatures as well as solar irradiation. The energy yield of the plant comes to more than 300,000 kWh a year.

In June 2009, another Phoenix Solar AG project was taken into operation and, with a peak output of 181 kW, was the largest photovoltaic plant in Singapore at the time. A Swiss biotech company entrusted us not only with the planning and construction but also with the realtime monitoring of the plant. This project, together with another power plant by Phoenix Solar, a building-integrated thin-film plant in Singapore on the Tampines Grande building, won the "Solar Pioneer Award" conferred by Singapore's Economic Development Board (EDB). Moreover, in April 2010, the Phoenix team completed Singapore's largest 380 kWp photovoltaic plant using thin-film modules.

Changi Airport Singapore: Large 2,500 square metre solar power plant

Thin-film technology: growing importance for photovoltaics

The choice between crystalline or thin-film solar modules depends on the conditions at the location and the size of the photovoltaic plant: In 2009, the innovative thin-film technology had a share of 74 percent in Phoenix Solar's modules portfolio. They are characterised by their cost-effective manufacturing and have long lifetimes comparable to those of crystalline products. No wonder that thin-film modules are making international headway. We are the outriders in this technology and, with 13 percent in 2009, global leader among suppliers.



Source: Phoenix Solar AG

CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM 1 JANUARY 2009 UNTIL 31 DECEMBER 2009 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

CONSOLIDATED INCOME STATEMENT

for the period from 1 January 2009 until 31 December 2009	Notes C. & D.	2009 k€	2008 k€
Revenues	(1)	473,032	402,494
Change in inventory of work in process	(2)	– 16,872	16,872
Overall performance		**456,160**	**419,366**
Other operating income	(3)	3,897	3,699
Cost of materials	(4)	414,371	356,492
Personnel expenses	(5)	16,017	12,478
Depreciation and amortisation	(6)	667	425
Other operating expenses	(7)	16,844	19,867
Operating result		**12,158**	**33,803**
Result from associated companies	(8)	18	20
EBIT		**12,176**	**33,823**
Financial income		418	711
Financial costs		1,660	1,088
Financial result	(9)	**– 1,242**	**– 377**
Consolidated net income before income taxes (EBT)		**10,934**	**33,446**
Income taxes	(10)	2,379	9,767
Consolidated net income for the period		**8,555**	**23,679**
– of which due to minority interest	(27)	0	– 20
– of which due to majority shareholders		8,555	23,699
Earnings per share			
Earnings per share (basic)		1.28	3.63
Earnings per share (diluted)		1.28	3.62

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 1 January 2009 until 31 December 2009	Notes D.	2009 k€	2008 k€
Consolidated net income for the period		**8,555**	**23,679**
Transactions associated with minority interests		75	– 92
Differences from currency translation		– 59	– 1
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(27)	16	– 93
Overall performance		**8,571**	**23,586**
– of which due to minority interest		75	– 112
– of which due to majority shareholders		8,496	23,698

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009

ASSETS	Notes C. & D.	2009 k€	2008 k€
Noncurrent assets			
Intangible assets	(12), (15)	2,072	547
Goodwill	(13), (15)	533	533
Property, plant and equipment	(14), (15)	2,705	1,651
Investments in associates	(16)	404	436
Other participating interests	(17)	160	160
Noncurrent receivables	(18)	687	490
Deferred tax assets	(10)	1,341	99
Noncurrent other financial assets	(23), (24)	1,444	1,417
Total noncurrent assets		**9,346**	**5,333**
Current assets			
Inventories	(19)	69,185	75,975
Prepayments	(20)	4,040	1,444
Receivables from long-term construction contracts	(21)	41,072	735
Trade receivables	(22)	24,507	24,849
Current other financial assets	(23), (24)	1,161	2,514
Current other non-financial assets	(25)	6,926	9,368
Current income tax assets	(10)	1,534	10
Cash and cash equivalents	(26)	24,461	7,535
Total current assets		**172,886**	**122,430**
Total assets		**182,232**	**127,763**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes C. & D.	2009 k€	2008 k€
Equity			
Subscribed capital	(27)	6,701	6,685
Capital reserve	(27)	41,805	40,433
Accumulated other equity	(27)	48,679	42,190
Share of majority shareholders in consolidated equity		**97,185**	**89,308**
Share of minority interest in consolidated equity	(27)	79	3
Total equity		**97,264**	**89,311**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities	(28)	47	0
Noncurrent provisions	(29)	1,522	1,773
Deferred tax liabilities	(10)	1,514	534
Total noncurrent liabilities and provisions		**3,083**	**2,307**
Current liabilities and provisions			
Current financial liabilities	(28)	6	53
Liabilities from long-term construction contracts	(21)	302	0
Trade payables	(30)	51,705	14,644
Other financial liabilities	(31)	4,324	4,793
Other non-financial liabilities	(31)	14,165	4,538
Current provisions	(29)	1,828	1,217
Current income tax liabilities	(10)	9,555	10,900
Total current liabilities and provisions		**81,885**	**36,145**
Total liabilities and shareholders' equity		**182,232**	127,763

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January until 31 December 2009	Notes C. to E.	Subscribed capital k€	Capital reserve k€	Accumulated other equity k€	Share of majority shareholders in consolidated equity k€	Share of minority interest in consolidated equity k€	Total equity k€
As per 1 January 2008		6,077	20,309	20,856	47,242	84	47,326
Purchase of remaining interest in Phoenix Solar S.r.l., Rome	(27)			– 932	– 932		– 932
Purchase of remaining interest in Phoenix Solar S.L., Madrid	(27)			– 94	– 94	– 65	– 159
First-time consolidation of project company of Scarlatti Srl., Italy	(27)					4	4
Reserve for share options	(40)		372		372		372
Dividend distribution	(27)			– 1,337	– 1,337		– 1,337
Capital increase	(27)	608	19,752		20,360		20,360
Differences from currency translation	(27)			– 2	– 2		– 2
Consolidated net income in 2008				23,699	23,699	– 20	23,679
As per 31 December 2008		**6,685**	**40,433**	**42,190**	**89,308**	**3**	**89,311**
As per 1 January 2009		**6,685**	**40,433**	**42,190**	**89,308**	**3**	**89,311**
Purchase of remaining interest in Scarlatti Srl., Eppan an der Weinstraße	(27)				0	– 3	– 3
Reserve for share options	(40)		1,075		1,075	0	1,075
Dividend distribution	(27)			– 2,005	– 2,005		– 2,005
Exercise of share options	(27), (40)	16	297		313		313
First-time consolidation of Phoenix Solar L.L.C., Muscat	(27)					79	79
Differences from currency translation	(27)			– 61	– 61		– 61
Consolidated net income in 2009	(27)			8,555	8,555		8,555
As per 31 December 2009		**6,701**	**41,805**	**48,679**	**97,185**	**79**	**97,264**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2009 until 31 December 2009	Notes C. to E.	2009 k€	2008 k€
Consolidated net income before income taxes		10,934	33,446
Depreciation and amortisation	(6), (15)	667	425
Other non-cash income (–) und expenses (+) (incl. result from associated companies)	(3), (8)	– 37	5,625
Profit/loss from disposal of intangible assets and equipment	(15)	1	5
Financial income	(9)	– 418	– 711
Financial costs	(9)	1,660	1,088
Sub-total		**12,807**	**39,878**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	335	1,440
Increase/decrease in inventories	(19)	5,414	– 51,853
Increase/decrease in prepayments	(20)	– 2,597	964
Increase/decrease in receivables from long-term construction contracts	(21)	– 40,337	8,563
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	1,075	– 7,990
Increase/decrease in assets	(24)	3,570	– 9,625
Increase/decrease in liabilities	(31)	47,680	376
Funds generated by operating activities		**27,947**	**– 18,247**
Interest paid	(9)	– 1,513	– 1,537
Income taxes paid	(10)	– 4,851	– 3,844
Cash flow from operating activities		**21,583**	**– 23,628**
Proceeds from associated companies	(16)	50	50
Proceeds from disposal of intangible assets and equipment		2	11
Purchase of intangible assets and equipment	(15)	– 3,116	– 1,286
Purchase of shares in consolidated companies	(13), (27)	0	– 1,229
Start-up costs of Phoenix Solar E.P.E.	(13)	0	– 5
Cash flow from investing activities		**– 3,064**	**– 2,459**
Proceeds from issue of share capital	(27)	313	20,360
Dividends paid	(27)	– 2,005	– 1,337
Payments in connection with financial liabilities	(28)	– 1	– 101
Interest income	(9)	100	698
Cash flow from financing activities		**– 1,593**	**19,620**
Changes in cash and cash equivalents		16,926	– 6,467
Currency-induced changes in cash and cash equivalents		0	– 1
Consolidation-related changes in cash and cash equivalents		0	3
Net changes in cash and cash equivalents		**16,926**	**– 6,465**
Cash and cash equivalents at the start of the period		7,535	14,000
Cash and cash equivalents at the end of the period	(26)	24,461	7,535
Increase/decrease in cash and cash equivalents		**16,926**	**– 6,465**

NOTES

TO THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE 2009 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As of 31 December 2009, the Phoenix Solar Group (also referred to hereinafter as the Phoenix Group) consisted of twelve companies with a total of 271 employees (including members of the Executive Board).

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

The parent company has been included in the German stock index TecDAX since 25 March 2008. TecDAX is assigned to the Prime Standard segment of the German Stock Exchange run by Deutsche Börse AG, where it represents 30 of the 35 biggest technology stocks below the level of the DAX, in terms of market capitalisation and order book revenues.

The business object of Phoenix Group comprises the development, production, sales, operation and administration of plants for generating energy from renewable energy sources, and the construction and maintenance of such plants. The Phoenix Group also distributes components and systems for generating energy from renewable energy sources. Most of the Group's business activities were conducted in the euro zone in 2009.

Two new subsidiaries were formed in the past financial year: Phoenix Solar SAS in Saint-Priest near Lyon, France, and Phoenix Solar L.L.C. in Muscat, Sultanate of Oman.

(2) INFORMATION ON ACCOUNTING STANDARDS

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

Therefore, Phoenix Solar AG prepares its consolidated financial statements in accordance with the provisions of the International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB) in London and endorsed by the EU. All Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable to financial year 2009 and the earlier interpretations of the Standing Interpretations Committee (SIC), as well as the supplementary provisions of Section 315a of the German Commercial Code (HGB), have been observed in the present consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement plus the statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the Group management report. The consolidated financial statements were prepared on the basis of the historical cost principle, with the exception of the fair model value applied for purposes of measuring the value of derivative financial instruments.

The consolidated financial statements are denominated in euros, as the reporting currency of the Group. In accordance with the functional currency concept, the balance sheet items of the respective Group companies are always denominated in the currency used in the primary economic environment

in which the company operates. Transactions denominated in currencies other than the functional currency are translated at the spot rate between the functional currency and the non-functional currency applicable on the respective transaction date. Any currency translation differences are recognised in income.

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

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

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

- Estimation of the stage of completion under the percentage-of-completion method
  As a general rule, the Group employs qualified definition criteria in determining whether to apply the percentage-of-completion method or the zero-profit method according to IAS 11. As a result of developments in the industry and the continual evolution of contract types associated with those developments, it is necessary in some cases to estimate the future fulfilment of contractual conditions precedent as of the reporting date. Although the construction controlling 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 changes in estimation 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 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.

- Determining the need for impairment losses

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

- Measurement of financial instruments

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

- 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.

  Furthermore, certain warranty commitments are extended over a long-term period of time, so that the interest effect can possibly be material.

a) New Standards, changes and Interpretations to be applied in 2009

On 5 March 2009, the International Accounting Standards Board (IASB) revised an International Financial Reporting Standard (IFRS) and published amendments to IFRS 7 Financial Instruments: Disclosures. Application of this amended version is obligatory in financial years that begin on or after 1 January 2009.

On 12 March 2009, the IASB published amendments to the International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement and to the corresponding International Financial Reporting Interpretations Committee (IFRIC) 9 Reassessment of Embedded Derivatives. These amendments must be applied retroactively in reporting periods that ended on or after 30 June 2009.

Independently of the publications mentioned above, application of the following Standards is obligatory in financial year 2009.

IFRS 2 Share-based Payment: In January 2008, the IASB published amendments to the Standard in order to clarify the expressions “vesting conditions” and “cancellations”.

IFRS 7 Financial Instruments: Disclosures. The new Standard extends the existing disclosure obligations for financial instruments according to IAS 32, supersedes the applicable disclosure obligations according to IAS 30 and summarises all disclosure obligations for financial instruments in a new Standard.

IFRS 8 Operating Segments: The Standard requires an entity to report financial and descriptive information about its reportable segments.

IAS 1 (revised) Presentation of Financial Statements: The main change from the predecessor version is that all non-owner changes in equity (i.e. accumulated other comprehensive income) must now be presented in two statements (a stand-alone income statement and a statement of comprehensive income). Components of accumulated other comprehensive income are not presented in the statement of changes in equity. Furthermore, the income tax attributable to every component of other comprehensive income and the income tax effect of adjustments resulting from reclassifications within equity related to components of other comprehensive income must be presented separately.

b) Standards, amendments and Interpretations applied ahead of obligatory application

IFRIC 15: Agreements for the Construction of Real Estate governs the accounting treatment of real estate sales prior to completion of the units being sold. Although the Phoenix Group’s business activities do not correspond directly to the intended purpose of the Interpretation, certain parallels can be seen with respect to the identification of business relationships that could have indirect effects on the recognition of revenue in the Power Plants segment.

c) 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 2009; however, these rules are not relevant to the consolidated financial statements of the Phoenix Group.

The IASB published an IFRS for Small and Medium-Sized Entities on 9 July 2009. This new Standard is not relevant to the Phoenix Group because the Group applies the full IFRS to its consolidated financial statements.

The IASB published amendments to IFRS 1 First-time Adoption of International Accounting Standards on 23 July 2009. The amendments have no bearing on the accounting practices of the Phoenix Group, as it applies the full IFRS.

On 29 January 2009, the IFRIC published IFRIC 18: Transfers of Assets from Customers, which must be applied to transfers of assets from customers prospectively as of 1 July 2009. This rule has no bearing on the Group's accounting practices.

d) 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 2010 at the earliest.

On 16 April 2009, the IASB published its second Standard, known as the Annual Improvements 2007–2009, in connection with the Annual Improvements Process (AIP). The new Standard made amendments to ten IFRS and two IFRIC Interpretations.

Unless otherwise stated, the amendments must be applied in financial years that begin on or after 1 January 2010. Earlier application is permitted.

On 18 June 2009, the IASB also published amendments to IFRS 2 Share-based Payment, in order to clarify the accounting treatment of Group cash-settled share-based payment transactions. On this occasion, the IASB withdrew IFRIC 8 and IFRIC 11. These amendments are to be applied in reporting periods that begin on or after 1 January 2010. They must be applied with retroactive effect. Earlier application is permitted. The Phoenix Group does not expect the first-time application of this amendment to necessitate any changes to its previous accounting methods.

On 4 November 2009, the IASB published the amended IAS 24 Related Party Disclosures. The amended Standard must be applied in reporting periods that begin on or after 1 January 2011. Earlier application is permitted.

The IASB published IFRS 9 Financial Instruments: Classification and Measurement on 12 November 2009. This Standard is part of the project to develop a successor Standard to IAS 39, which is supposed to be completed in 2010. The Standard deals with the classification and measurement of financial instruments. IFRS 9 will replace the former measurement categories of

- Loans and receivables;
- Held-to-maturity financial assets;
- Available-for-sale financial assets;
- Assets recognised at fair value through profit and loss;

with the categories:

- Assets measured at amortised cost; and
- Assets measured at fair value.

The amendments must be applied in financial years that begin on or after 1 January 2013. Earlier application already in 2009 is permitted.

The following additional changes, described in the prior-year annual report, relate to

- IAS 27 (revised): Consolidated and Separate Financial Statements According to IFRS
- IFRS 3 (revised): Business Combinations

Both changes will be applied by the Phoenix Group at the start of financial year 2010. The implementation of these new rules is not expected to have any effects on the previously applied accounting practices of the Group.

e) 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 2009. These Interpretations relate to matters that were not relevant to the Phoenix Group as of the reporting date.

On 8 October 2009, the IASB published new amendments to IAS 32 Financial Instruments: Presentation. The amendments govern the accounting treatment of issuers of subscription rights, options and warrants for the purchase of a fixed number of equity instruments, which are denominated in a different currency than the functional currency of the issuer. The amendments must be applied in financial years that begin on or after 1 February 2010. Earlier application is permitted. Because the outstanding equity instruments of Phoenix Solar AG were issued in the functional currency of Phoenix Solar AG, this amendment is not relevant to the Phoenix Group.

On 26 November 2009, the IASB published an amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction and the exposure draft of an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRIC 14 is relevant in those rare cases in which an enterprise is subject to minimum funding requirements and makes advance contribution payments in order to fulfil them. The amendment to IFRIC 14 must be applied as of 1 January 2011; earlier application in financial statements as of 31 December 2009 is permitted. Because the Phoenix Group had not made any defined benefit commitments to its employees as of the reporting date, this amendment will have no effect on the accounting practices of the Group.

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

(3) REPORTING DATE

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

(4) DATE OF AUTHORISATION FOR ISSUE

The financial statements are supposed to be cleared for publication on 22 April 2010. The Executive Board will approve the release.

(5) CONSOLIDATION PRINCIPLES

Group of consolidated companies

All subsidiaries are included in the consolidated financial statements of Phoenix Solar AG according to the principles of IAS 27. Compared to the status as of 31 December 2008, two companies were added to the consolidation group of the Phoenix Group (four companies in the previous year) and one company was removed from the consolidation group as a result of the business combination of Phoenix Solar Energy Investments AG with Phoenix Solar AG.

In addition to the parent company, therefore, the following 11 companies were consolidated:

Company name	Type of consolidation	Equity share
Phoenix Solar S.L., Madrid, Spain	Full consolidation	100 %
Phoenix Solar S.r.l., Rome, Italy	Full consolidation	100 %
Phoenix Solar E.P.E., Athens, Greece	Full consolidation	100 %
Phoenix Solar SAS, Lyon, France	Full consolidation	100 %
Phoenix Solar Pty Ltd, Adelaide, Australia	Full consolidation	100 %
Phoenix Solar Pte Ltd, Singapore, Singapore	Full consolidation	75 %
Phoenix Solar L.L.C., Muscat, Oman	Full consolidation	70 %
Scarlatti Srl., Eppan an der Weinstraße, Italy	Full consolidation	100 %
TPC Photoenergy srl, Eppan an der Weinstraße, Italy	Full consolidation	100 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phönix SonnenFonds GmbH & Co. KG D4, Sulzemoos, Germany	Full consolidation	100 %

On 13 January 2009, the remaining 44.444 percent of the shares in Scarlatti Srl., Eppan an der Weinstraße, was purchased from the non-controlling shareholders. The purchase price to be paid for the non-controlling interests is contingent on the achievement of certain project-related events. If all conditions precedent are fulfilled within the next 21 months, the acquisition cost of the non-controlling interests could be up to EUR 13.3 million.

The legally effective business combination of the subsidiary Phoenix Solar Energy Investments AG with Phoenix Solar AG with retroactive effect as of 1 January 2009, which was resolved at the annual general meeting of Phoenix Solar AG of 19 May 2009, was duly registered with the Commercial Register on 3 July 2009. As a result of the business combination, Phoenix Solar Energy Investments AG was subsumed into the absorbing legal entity and was therefore struck from the Commercial Register.

Founded on 23 June 2009, Phoenix Solar SAS, with its head office in Lyon, France, commenced operations only in September 2009. The subsidiary will expand the Group's sales and distribution activities in the Power Plants and Components & Systems segments in France and in adjacent countries of Western Europe.

On 22 October 2009, Phoenix Solar AG founded the company Phoenix Solar L.L.C. in Muscat, the capital of the Sultanate of Oman. Phoenix Solar AG holds 70 percent and the Oman-based partner Silver Circle Overseas L.L.C. holds 30 percent of the company Phoenix Solar L.L.C. The newly formed company will implement solar projects in Oman and in the Gulf states, with a particular focus on the planning and turnkey construction of solar field and roof-top photovoltaic systems, which will be offered either as grid-connected solutions or as stand-alone systems.

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

Company name	Type of consolidation	Equity share	Equity as of 31/12/2009 k€	Period profit/loss 2009 k€
Phönix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Deutschland	At-Equity	31.2 %	946	57

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

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

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

Company name	Total assets 31/12/2008 (HGB) k€	Total liabilities 31/12/2008 (HGB) k€	Income 2008 (HGB) k€	Period profit/loss 2008 (HGB) k€
Phönix SonnenFonds GmbH & Co. KG A1/2 West	459	158	93	36
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	490	400	92	30
Phönix SonnenFonds GmbH & Co. KG A3/4 West	462	368	93	36
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	496	413	91	29
Phönix SonnenFonds GmbH & Co. KG A5/6 West	496	262	92	29
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	495	173	90	29

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 basically fulfils the new requirements of IAS 32 (amended), Financial Instruments: Presentation and IAS 1 (amended), Presentation of Financial Statements, which 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, the limited partner has no influence whatsoever on the financial and operating policies of the company.

Company name	Type of consolidation	Equity share	Equity as of 31/12/2009 k€	Period profit/loss 2009 k€
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, Grünwald, Deutschland	n/a	50 %	282	10

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

Consolidation principles

a) Subsidiaries

Subsidiaries are included in the group of consolidated companies when the Group has the power to govern their financial and operating policies, which 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 acquired companies. The cost of an acquisition is measured as the fair value of the assets provided, the equity instruments issued and the liabilities assumed on the date when control is obtained. Upon initial recognition, the identifiable assets acquired and the liabilities and contingent liabilities assumed are measured at their fair value as of the acquisition date. If the acquisition cost is higher than the Group’s proportional share of the remeasured net assets, the difference is recognised as goodwill in the consolidated balance sheet; in the rare case when the acquisition cost is less than the Group’s proportional share of the remeasured net assets, this difference is recognised immediately as a gain in profit or loss.

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

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

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

Expenses and income are consolidated in accordance with IAS 27. Therefore, intragroup expenses and income are eliminated in full.

In accordance with IAS 27, gains or losses on intragroup transactions that are contained in the book values 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

Founded on 23 June 2009, the company Phoenix Solar SAS, with its head office in Lyon, France, commenced operations only in September 2009.

On 22 October 2009, Phoenix Solar AG formed the company Phoenix Solar L.L.C. in Muscat, Sultanate of Oman, jointly with the partner Silver Circle Overseas L.L.C. Phoenix holds 70 percent of the equity in Phoenix Solar L.L.C.

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 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 book value of the investment in subsequent periods.

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

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

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

B. RECOGNITION AND MEASUREMENT METHODS

(1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

Revenue recognition

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

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

Revenues are presented on a net basis, 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 certain conditions are met. Under that method, contract revenues and profits are recognised in the income statement in proportion to the stage of completion in the periods in which the work is performed. Thus, revenues and profits under fixed-price contracts are recognised on the basis of the stage of completion. Specifically, they are recognised in proportion to the ratio of the internal and external costs incurred at the reporting date to the total estimated costs of each contract (cost-to-cost method).

In those cases in which contract revenue cannot be estimated reliably (as in the case of advance expenditures in respect of anticipated contracts that have not yet been finalised, for example), revenues are recognised in the amount of costs incurred to the extent it can be expected that they will be covered by contract revenues (zero-profit method). Such contracts are presented as receivables and payables under long-term construction contracts. If the cumulative work performed (contract costs incurred and profits recognised) 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 book value of those assets, either as incidental acquisition costs or production costs. Under the PoC method, the corresponding interest costs reduce the profits from customer-specific construction contracts, as a component of production costs.

(2) SPECIFIC BALANCE SHEET ITEMS

Intangible assets

In accordance with IAS 38, purchased intangible assets are measured at acquisition cost and amortised on a straight-line basis over their expected useful lives. 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 and only when the inflow of benefits will last longer than one financial year. Other conditions that must be met are the intention to complete the asset, the technological feasibility and the availability of resources for that purpose. 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.

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 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 book values of those assets; in this connection, no need for impairment losses was discovered. For purposes of the impairment test, goodwill is allocated to the corresponding cash-generating units, which must correspond to the operating segments at least.

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 book values, useful lives and depreciation method applied are reviewed at least at every year-end reporting date. If the expectations at that time differ from the previously applied estimates, the corresponding adjustments are made as changes of estimates in accordance with IAS 8. The acquisition or production cost comprises the purchase price, directly allocable costs required to bring the asset to its present location and condition as intended by the management, the estimated costs of demolition and clearance of the asset and the restoration of the site at which it was located. If an item of property, plant and equipment consists of more than one component with different useful lives, such material components are depreciated over their individual useful lives. Maintenance and repair costs are recognised in income in the period in which they are incurred. Borrowing costs are capitalised to the extent that they can be allocated individually 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 book value 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 book value of the asset, is recognised as other operating income or other operating expenses as of the date of derecognition.

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

Impairment of intangible assets and property, plant and equipment

An impairment test is conducted when there are indications of possible impairments of the book values of intangible assets 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 calculated 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. If the recoverable amount of an asset is less than the book value, an impairment loss is immediately recognised in income. If the recoverable amount of an asset or cash-generating unit for which an impairment loss had been recognised would be higher in subsequent periods, the earlier impairment loss is reversed; the maximum book value of an asset after reversal of an impairment loss is the amortised cost that would have resulted without an impairment loss. Such reversal of an impairment loss is recognised in income.

Leases

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

The rental and lease payments paid in connection with operating leases are recognised directly as expenses in the income statement on a straight-line basis over the term of the lease.

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

Other investments

Other investments are financial investments in equity instruments for which there is no active market with listed prices and the fair values of which cannot be determined reliably. Other investments are measured at acquisition cost, plus incidental acquisition costs.

Inventories

In accordance with IAS 2, inventories are measured upon initial recognition at acquisition or production costs plus incidental costs and less purchase price deductions. Production costs 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 constructions on non-owned land which do not qualify for the accounting treatment according to IAS 11. If the net realisable value at the reporting date does not cover the production costs, the book value presented in the balance sheet 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 “Cost of materials”. 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 on the settlement date. 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 book value.

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).
- 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. 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 book value of such assets, the impairment loss is recognised in income. Other investments for which no market prices are available and the fair value of which cannot be determined reliably are measured at amortised cost. When there are indications of an impairment, an impairment test is conducted and any necessary impairment loss is recognised in income.
- Financial liabilities measured at amortised cost (AmC) are measured upon initial recognition at acquisition cost. In subsequent periods, such liabilities (with the exception of derivative financial instruments) are measured at amortised cost, which is usually equal to the settlement amount.

Derivative financial instruments

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

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

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

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

Financial assets

Upon initial recognition, financial assets are measured at fair value. The directly attributable transaction costs of all financial assets which are not measured at fair value through profit and loss in subsequent periods are added to the book value. The fair values recognised in the balance sheet are usually equal to the market prices of the financial assets. If such market prices are not directly available, they are calculated by means of recognised measurement models, based on current market parameters.

Customary market purchases of financial assets are generally recognised as of the settlement date, meaning that they are capitalised as of the date when the financial asset is delivered to the company. The liability resulting from the purchase is recognised in the balance sheet at the same date.

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 over the lock-up period or vesting period.

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

Non-controlling interests

In accordance with IAS 27, non-controlling interests are presented as a separate line item within equity in the consolidated balance sheet. Pro-rated losses are charged to the respective non-controlling interests only up to the stated equity amount as a maximum. Any losses in excess of that amount are deducted from the profit shares of non-controlling interests to be credited in subsequent periods.

Provisions

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

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

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

Unconditional obligations resulting from the site restoration of property, plant and equipment are recognised as liabilities, provided that a reliable estimate is possible, in the period in which they are incurred and are measured at the present value of the associated settlement amounts. At the same time, the book values 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.

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.

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

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

Income taxes

a) Current taxes

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

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

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

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 book values of the respective assets and liabilities, which will reverse in the future and give rise to income tax effects, and for consolidation transactions to be recognised in income and tax loss carry-forwards.

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

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

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

- A transaction or event 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 applies to items that were credited or charged directly to equity, the tax is likewise recognised directly in equity, with no effect on income.

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

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

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

(3) DIVIDEND DISTRIBUTION

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

(4) FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated at the exchange rates applicable on the transaction date. Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate on the reporting date. Foreign exchange gains and losses are recognised in income. Non-monetary items (in the Phoenix Group consisting mainly of inventories and advance payments rendered on inventories), which are measured at historical acquisition cost, are translated at the exchange rate on the transaction date, in accordance with IAS 21.23b).

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

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2009	Average exchange rate in 2009	Exchange rate on reporting date 2008	Average exchange rate 2008
USD/EUR	1.4406	1.3963	1.3917	1.4726
AUD/EUR	1.6008	1.7656	2.0274	1.8401
JPY/EUR	133.16	130.34	126.14	152.45
OMR/EUR	0.5497	0.5663	n/a	n/a

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

(1) REVENUES

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

Revenues	2009 k€	2008 k€
Components & Systems	299,004	214,622
Power Plants	173,974	187,808
Other	54	64
Total	**473,032**	**402,494**

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

As of the reporting date, total revenues included revenues from long-term construction contracts (according to IAS 11) which had not yet been finally invoiced, in the amount of EUR 61,845 thousand (PY: EUR 5,438 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. The revenue recognition of one such project in the first half of financial year 2009 reduced the inventory of work in progress by EUR 16,872 thousand.

(3) OTHER OPERATING INCOME

Other operating income	2009 k€	2008 k€
Income from payment of claims for damages	13	78
Remuneration in kind	176	144
Income from reversal of provisions and liabilities	1,249	754
Electricity income	1,103	0
Income from disposal of property, plant and equipment	2	11
Income from reversal of writedowns	625	6
Income from foreign exchange gains	230	1,741
Licensing income	0	706
Other	499	258
Total	**3,897**	**3,699**

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

Licensing income consisted of remuneration for the use of a joint technological development for supporting structure between the Phoenix Group and a supplier from the year 2007. The agreement, which expired at the end of 2008, stipulated that in case of the usage or sale of this development in projects in which Phoenix is not involved, Phoenix would be entitled to a fixed revenue percentage.

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

(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	2009 k€	2008 k€
Expenses of purchased goods	369,022	304,061
Expenses of purchased services	45,349	52,431
Total	**414,371**	**356,492**

(5) PERSONNEL EXPENSES

The personnel expenses break down as follows:

Personnel expenses	2009 k€	2008 k€
Wages and salaries	12,631	10,413
Expenses of stock option plans	1,074	372
Social security	2,276	1,672
Pension and other benefits	36	21
Total	**16,017**	**12,478**

Since 1 July 2008, the company has offered all its employees a defined contribution pension plan based on salary deferral. The company makes matching payments on the contributions of the participating employees in accordance with the regulations of tax law and social security law. In the past financial year, an employer contribution of EUR 32 thousand (PY: EUR 19 thousand) was recognised as an expense in the income statement. The Group has not extended any defined benefit pension commitments.

The expenses for other pension benefits amounted to EUR 4 thousand (PY: EUR 2 thousand). These expenses resulted from direct insurance plans and contributions under the Capital Formation Act.

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

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

Employees	2009	2008
Members of the Executive Board (parent company)	5	4
Permanent employees (full-time and part-time)	211	168
Temporary employees	24	18
Total	**240**	**190**

(6) DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to EUR 667 thousand in financial year 2009 (PY: EUR 425 thousand). A detailed presentation can be found in the Statement of Changes in Noncurrent Assets in Note (15).

(7) OTHER OPERATING EXPENSES

Other operating expenses	2009 k€	2008 k€
Administrative expenses	8,243	7,572
Selling expenses	6,638	4,896
Operating expenses	1,143	4,360
Other expenses	820	3,039
Total	**16,844**	**19,867**

Expenses from operating leases amounted to EUR 2,045 thousand in financial year 2009 (PY: EUR 538 thousand).

The administrative expenses incurred in financial year 2009 included losses of EUR 4 thousand on the translation of transactions denominated in foreign currencies to the reporting currency (PY: EUR 420 thousand).

Research and development costs in the amount of EUR 18 thousand were recognised as expenses in financial year 2009 (PY: EUR 76 thousand).

(8) INCOME FROM ASSOCIATED COMPANIES

Income from associated companies amounted to EUR 18 thousand in financial year 2009 (PY: EUR 20 thousand).

(9) FINANCIAL RESULT

The financial result was EUR 865 thousand lower than the prior-year figure. Interest expenses in the amount of EUR 1,660 thousand (PY: EUR 1,088 thousand) were incurred mainly for short-term financing credits and negative fair values of interest rate hedging transactions; interest income in the amount of EUR 418 thousand (PY: EUR 711 thousand) was earned mainly on call money accounts.

(10) INCOME TAXES

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

Income taxes	2009 k€	2008 k€
Current taxes	2,294	12,756
Deferred taxes	85	– 2,989
Total	**2,379**	**9,767**

The recognised income tax expenses of EUR 2,379 thousand in financial year 2009 (PY: EUR 9,767 thousand) were EUR 540 thousand less than the expected income tax expenses of EUR 2,919 thousand, which would have resulted theoretically from the application of the domestic tax rate of 26.7 percent (PY: EUR 26.7 percent) to the consolidated profit before income taxes.

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

Reconciliation statement	2009 k€	2008 k€
Profit before income taxes	10,934	33,446
Income taxes calculated by application of theoretical tax rate 26.7 % (PY: 26.7 %)	2,919	8,930
Changes in income tax expenses as compared to the calculated income tax expenses resulting from:		
– Non-period income taxes	– 789	– 175
– Tax effect of non-deductible expenses for stock options	290	99
– Tax effect of other non-deductible expenses	175	53
– Tax effect of differing tax rates	79	968
– Tax effect of deductible expenses of capital increase	0	– 157
– Tax effect of non-recognition of losses	37	46
– Tax effect of differing tax bases	45	20
– Other differences/consolidation	– 377	– 17
Total	**2,379**	**9,767**
Effective tax rate	21.8 %	29.2 %

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

The non-period tax income resulted mainly from a reorientation of the corporate tax strategy that was implemented in financial year 2009.

The item “Tax effect of differing tax rates” resulted mainly from the application of different tax rates for the Group’s foreign subsidiaries and business establishments. The foreign income tax rates range from 12 percent to 33 percent. Due to the lower proportion of foreign revenues in 2009, the difference was much smaller than it was in the prior year.

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

Deferred taxes by balance sheet item	2009 k€	2008 k€
Deferred tax assets		
Measurement of derivatives	135	23
Loss carry-forwards capitalised	856	76
Measurement of provisions	81	0
Other	505	0
Total	**1,577**	**99**
– thereof current	1,428	23
– thereof noncurrent	149	76
Deferred tax liabilities		
Internally generated intangible assets	1	2
Property, plant and equipment	17	10
PoC measurement of construction contracts	1,202	98
Measurement of derivatives	38	0
Measurement of inventories	**265**	**242**
Accrued financing costs	102	157
Other/ consolidation	126	25
Total	**1,751**	**534**
– thereof current	**1,458**	**417**
– thereof noncurrent	**293**	**117**

In total, deferred taxes of EUR 237 thousand (PY: EUR 0 thousand) were netted with each other.

The subsidiaries of Phoenix Solar AG generated a tax loss of EUR 3,423 thousand in financial year 2009, for most of which deferred tax assets were recognised. The total amount of non-recognised losses was EUR 338 thousand (PY: EUR 0 thousand). Loss carry-forwards that can be carried forward for no more than five years were recognised in the amount of EUR 3,085 thousand (PY: EUR 0 thousand).

As in the prior year, no deferred taxes were recognised for outside basis differences in financial year 2009 because most of the subsidiaries did not have net assets that would allow for dividend distributions as of the reporting date and therefore no temporary outside basis differences existed (PY: EUR 314 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 past financial year.

Basic earnings per share		2009	2008
Consolidated profit after taxes	k€	8,555	23,699
Average number of shares outstanding in the financial year	Units	6,697,368	6,535,115
Basic earnings per share	**€**	**1.28**	**3.63**

For purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is corrected by the number of potentially 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.

Diluted earnings per share		2009	2008
Consolidated profit after taxes	k€	8,555	23,699
Average number of shares outstanding	Units	6,697,368	6,535,115
Correction for potentially diluting shares	Units	4,716	12,890
Average number of shares outstanding (including potentially diluting shares)	Units	6,702,084	6,548,005
Diluted earnings per share	**€**	**1.28**	**3.62**

As of 31 December 2009, the Group disposed of Authorised Capital in the amount of EUR 1,603 thousand, which was not included in the calculations, however, because no diluting effect will arise from that fact in the current period. The Contingent Capital of EUR 536 thousand was included in the calculation of the diluted earnings per share only to the extent that stock options have already been issued.

The consolidated profit after taxes for 2009 was added to the distributable profit as of 31 December 2009. The Executive Board of Phoenix Solar AG proposes the distribution of a dividend of EUR 0.20 (PY: EUR 0.30) per share for 6,700,700 shares.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(12) INTANGIBLE ASSETS

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

Phoenix Solar AG developed a new supporting structure for mounting photovoltaic modules. This technology is protected by a utility patent. It was recognised in the balance sheet and measured at the production cost of EUR 29 thousand. Since the development was completed and the technology commissioned in 2007, amortisation was begun over a useful life of five years.

Scheduled amortisation is presented in the income statement under the item of "Depreciation and amortisation". There was no need to recognise impairment losses either in financial year 2009 or in the prior year.

Significant intangible assets	Book value as of 31/12/2009 k€	Remaining amortisation period
"Phoenix" trademark	401	7 years
Licenses to software	316	2 years
Development costs	2	1 year

(13) GOODWILL

The goodwill of Phoenix Solar Energy Investments AG (EUR 272 thousand), which was acquired effective 15 March 2002, was recognised upon initial consolidation.

As of 1 January 2008, the initial consolidation of the company Renewable Energies Development 2002 (RED 2002) S.r.l. in Rome, which had formerly been accounted for at equity, gave rise to goodwill in the amount of EUR 235 thousand. In addition, an item of goodwill arose in connection with the formation of the Greek subsidiary, after the parent company undertook to assume the formation costs of EUR 5 thousand.

Goodwill	31/12/2009 k€	31/12/2008 k€
Power Plants	272	272
Components & Systems	235	235
Other	26	26
Total	**533**	**533**

In accordance with IFRS 3 in conjunction with IAS 38, goodwill items are not subjected to systematic amortisation. Instead, an annual impairment test is conducted to review the substantive value of goodwill. For that purpose, the book value 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, under which the expected future cash flows of the corresponding companies, based on the latest medium-term plans, are discounted to present value by application of a weighted average capital cost rate before income taxes of 10.21 percent (PY: 8.76 percent). For purposes of calculating a perpetual annuity, a growth factor of one percent was assumed. An impairment loss is deemed to have occurred when the future income value is less than the book value.

No impairment losses needed to be recognised in financial year 2009. Even assuming that the revenues of one of the cash-generating units would be five percent less or that interest rates would be ten percent higher, no need for impairment losses would arise.

(14) PROPERTY, PLANT AND EQUIPMENT

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

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

As in the prior year, no impairment losses needed to be recognised in financial year 2009.

(15) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in noncurrent assets within the Phoenix group

	Acquisition or production cost				
	Balance at 01/01	Acquisition in financial year	Disposal in financial year	Currency translation	Balance at 31/12
2009	**k€**	**k€**	**k€**	**k€**	**k€**
Internally generated intangible assets	29	0	0	0	29
Intangible assets	1,161	1,739	13	0	2,887
Goodwill	533	0	0	0	533
Property, plant and equipment	2,642	1,518	8	5	4,157
Total noncurrent assets	**4,365**	**3,257**	**21**	**5**	**7,606**

2008	**01/01**				**31/12**
Internally generated intangible assets	29	0	0	0	29
Intangible assets	1,324	270	433	0	1,161
Goodwill	292	241	0	0	533
Property, plant and equipment	1,955	775	90	2	2,642
Total noncurrent assets	**3,600**	**1,286**	**523**	**2**	**4,365**

(16) SHARES IN ASSOCIATED COMPANIES

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

The book values showed the following development in financial year 2009:

Book values	**2009 k€**	**2008 k€**
Book value at 01/01	436	991
+ Acquisition	0	0
– Disposal	0	– 524
– Dividends	– 50	– 50
+ Profit shares	18	19
Book value at 31/12	**404**	**436**

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

Aggregated financial information on the associated company	**2009 k€**	**2008 k€**
Assets	951	1,058
Liabilities	5	8
Revenues	167	182
Equity*	946	1,050
Total assets	951	1,058
Profit for the year	**56**	**63**

* 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.

Accumulated amortisation and depreciation						
Balance at 01/01	Acquisition in financial year	Disposal in financial year	Currency translation	Balance at 31/12	Book values at 31/12/2009	Book values at 31/12/2008
k€	k€	k€	k€	k€	k€	k€
17	10	0	0	27	2	12
626	195	3	0	818	2,069	535
0	0	0	0	0	533	533
991	462	2	1	1,452	2,705	1,651
1,634	667	5	1	2,297	**5,309**	**2,731**

01/01				31/12	31/12/2008	31/12/2007
7	10	0	0	17	12	22
537	89	0	0	626	535	787
0	0	0	0	0	533	292
737	326	74	2	991	1,651	1,218
1,281	425	74	2	1,634	**2,731**	**2,319**

(17) OTHER INVESTMENTS

The item of Other investments includes the cooperative share in a bank and a 50 percent share in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, which was founded in financial year 2007. In 2009, that company had assets of EUR 1,327 thousand (PY: EUR 1,153 thousand), liabilities of EUR 1,038 thousand (PY: EUR 871 thousand), revenues of EUR 0 thousand (PY: EUR 0 thousand) and a profit before taxes of EUR 13 thousand (PY: EUR 10 thousand). SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, in turn, holds a 100 percent equity stake in KALENTA Solar M.E.P.E. Greece, a shelf company for project planning work in Greece.

(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 percent p. a. from 1 January 2016 to the date of payment in full.

This item also includes a prepaid lease expense item of EUR 207 thousand (PY: EUR 217 thousand) for land in Italy. It also includes a loan in the amount of EUR 30 thousand, which matures on 30 June 2012. It bears interest at the rate of 6.5 percent p. a.

(19) INVENTORIES

The inventories break down as follows:

Inventories	31/12/2009 k€	31/12/2008 k€
Trading stock	72,470	60,348
Writedown	– 3,285	– 1,245
Net value of trading stock	**69,185**	**59,103**
Work in progress	0	17,101
Writedown	0	– 229
Net book value	**0**	**16,872**
Amount stated in the balance sheet	**69,185**	**75,975**

The trading stock inventory consisted mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering. Of the total trading stock, an amount of EUR 25,488 thousand (PY: EUR 7,739 thousand) related to insured goods in transit.

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

As of 31 December 2009, the book value of inventories measured at net realisable value less costs to sell amounted to EUR 4,386 thousand (PY: EUR 19,121 thousand). The expenses of the corresponding writedowns amounted to EUR 2,102 thousand (PY: EUR 1,474 thousand).

The book value of inventories recognised as period expenses amounted to EUR 369,022 thousand (PY: EUR 304,061 thousand).

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

(20) ADVANCE PAYMENTS RENDERED

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

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

As of the reporting date, gross receivables under long-term construction contracts amounted to EUR 58,943 thousand (PY: EUR 735 thousand). Most of these receivables relate to projects in Germany. Contract revenues of EUR 61,845 thousand (PY: EUR 5,359 thousand), contract costs of EUR 55,471 thousand (PY: EUR 4,981 thousand) and profits of EUR 4,944 thousand (PY: EUR 378 thousand) were recognised. Losses in the amount of EUR 1,164 (PY: EUR 0 thousand) were recognised as expenses in respect of contracts that are expected to conclude with a negative profit margin.

Down payments of EUR 17,871 thousand (PY: EUR 4,715 thousand) were collected on account of contracts and other down payments of EUR 33,399 thousand (PY: EUR 5,390 thousand) were requested on account of contracts.

In consideration of the requested and recognisable down payments and partial invoices, the presented amount of EUR 41,072 thousand (PY: EUR 735 thousand) breaks down as follows:

Book values	**31/12/2009 k€**	**31/12/2008 k€**
Receivables under long-term construction contracts after deduction of partial invoices based on stage of completion	15,721	644
Plus requested and recognisable partial invoices	25,351	91
Amount presented in the balance sheet	**41,072**	**735**

The borrowing costs of EUR 592 thousand (PY: EUR 308 thousand) recognised in connection with long-term contract construction were capitalised as project costs; an interest rate of 3.4 to 3.5 percent (PY: 3.20 to 4.15 percent) was applied as the borrowing cost rate.

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

		Expected receipt of payment			
At 31/12/2009	Book value k€	Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
Receivables under long-term construction contracts	41,072	0	1,189	39,883	0
At 31/12/2008					
Receivables under long-term construction contracts	735	0	0	735	0

(22) TRADE RECEIVABLES

The trade receivables break down as follows:

Trade receivables	31/12/2009 k€	31/12/2008 k€
Gross receivables	26,368	27,490
Less writedowns	– 1,861	– 2,641
Amount presented in the balance sheet	**24,507**	**24,849**

The fair values of trade receivables are equal to their book values. The writedowns consist of write-downs charged against receivables that are expected to be uncollectible and writedowns charged on a portfolio basis.

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

			Not written down and due for payment at the reporting date			
	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
As of 31/12/2009	k€	k€	k€	k€	k€	k€
Trade receivables	24,507	15,451	6,632	866	1,558	0
As of 31/12/2008						
Trade receivables	24,849	9,210	7,991	4,433	3,215	0

The writedowns charged against trade receivables attributable to the measurement category "Loans and Receivables" showed the following development in financial year 2009:

Loans and receivables	2009 k€	2008 k€
Writedowns at 1 January	**2,641**	**234**
Foreign exchange differences	0	0
Utilisation	– 169	– 55
Reversal	– 611	– 6
Addition	0	2,468
Writedowns at 31 December	**1,861**	**2,641**

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:

	2009 k€	2008 k€
Expenses for the charge-off of receivables	2	3
Income from recovery of charged-off receivables	0	0

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

(23) OTHER FINANCIAL ASSETS

a) Noncurrent other financial assets

The noncurrent other financial assets consisted mainly of a standing advance to a supplier in the amount of EUR 875 thousand (PY: EUR 878 thousand). This advance is secured by bank guarantees.

The subsidiary Phoenix Solar Energy Investments AG, which was merged into Phoenix Solar AG in financial year 2009, purchased an investment in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG in 2007. At that time, it extended an interest-bearing loan of EUR 505 thousand (PY: EUR 435 thousand) maturing at the end of 2012 to SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. Based on the fair market interest rate of 6.5 percent, Phoenix Solar AG collected interest income of EUR 29 thousand on this loan in 2009 (PY: EUR 24 thousand).

The remaining amount consisted of security deposits furnished.

b) Current other financial assets

The current other financial assets break down as follows:

Current other financial assets	31/12/2009 k€	31/12/2008 k€
Receivables under financial transfer operations	377	601
Supplier credits	177	983
Creditors with debit balances	36	116
Advance payments	216	460
Derivatives	141	0
Other	214	254
Total	**1,161**	**2,514**

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

		Expected receipt of payment			
As of 31/12/2009	Book value k€	Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
Financial assets	2,605	401	47	713	1,444
Due in one year or less	1,161	401	47	713	0
Due in more than one year	1,444	0	0	0	1,444
As of 31/12/2008					
Financial assets	3,931	622	1,060	832	1,417
Due in one year or less	2,514	622	1,060	832	0
Due in more than one year	1,417	0	0	0	1,417

(24) INFORMATION ON FINANCIAL INSTRUMENTS BY CATEGORY

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

2009	Measurement category as per IAS 39*	Book values k€	Total book values within the scope of IFRS 7 k€	Fair value k€
Other investments	AfS	160	160	160 [1]
Noncurrent receivables	LaR	687	687	687
Other noncurrent financial assets	LaR	1,444	1,444	1,444
Receivables under long-term construction contracts	LaR	41,072	41,072	41,072
Trade receivables	LaR	24,507	24,507	24,507
Other current financial assets				
Derivatives not used for hedging	HfT	141	141	141
Cash and cash equivalents	LaR	24,461	24,461	24,461
Total assets		**92,472**	**92,472**	**92,472**
Noncurrent financial liabilities	AmC	47	47	47
Current financial liabilities	AmC	6	6	6
Total financial liabilities		**53**	**53**	**53**
Liabilities under long-term construction contracts	AmC	302	302	302
Trade payables	AmC	51,705	51,705	51,705
Other financial liabilities				
Derivatives not used for hedging	HfT	500	500	500
Total financial liabilities		**52,507**	**52,507**	**52,507**

2008				
Other investments	AfS	160	160	160 [1]
Noncurrent receivables	LaR	490	490	490
Other noncurrent financial assets	LaR	1,417	1,417	1,417
Receivables under long-term construction contracts	LaR	735	735	735
Trade receivables	LaR	24,849	24,849	24,849
Other current financial assets				
Derivatives not used for hedging	HfT	0	0	0
Cash and cash equivalents	LaR	7,535	7,535	7,535
Total assets		**35,186**	**35,186**	**35,186**
Noncurrent financial liabilities	AmC	0	0	0
Current financial liabilities	AmC	53	53	53
Total financial liabilities		**53**	**53**	**53**
Liabilities under long-term construction contracts	AmC	0	0	0
Trade payables	AmC	14,644	14,644	14,644
Other financial liabilities				
Derivatives not used for hedging	HfT	84	84	84
Total financial liabilities		**14,728**	**14,728**	**14,728**

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

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

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

2009	LaR k€	AfS k€	HfT k€	Total k€
Interest income	418	0	0	418
Interest expenses	- 1,660	0	0	- 1,660
Changes in fair value	0	0	- 391	- 391
Expenses of impairment losses	- 3,025	0	0	- 3,025
Income from reversals of impairment losses	0	0	0	0
Gains on disposal	760	0	89	849
Losses on disposal	- 627	0	- 4	- 631
Net result	**- 4,134**	**0**	**- 306**	**- 4,440**

2008				
Interest income	710	0	0	710
Interest expenses	- 1,971	0	0	- 1,971
Changes in fair value	0	0	1,317	1,317
Expenses of impairment losses	- 2,644	0	0	- 2,644
Income from reversals of impairment losses	0	0	0	0
Gains on disposal	0	0	0	0
Losses on disposal	- 6	0	0	- 6
Net result	**- 3,911**	**0**	**1,317**	**- 2,594**

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

(25) OTHER NON-FINANCIAL ASSETS

The other non-financial assets in the amount of EUR 6,926 thousand (PY: EUR 9,368 thousand) consisted mainly of foreign sales tax receivables in the amount of EUR 6,787 thousand (PY: EUR 7,713 thousand).

(26) CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents	31/12/2009 k€	31/12/2008 k€
Cash on hand	7	5
Cash in banks	24,454	7,530
Total	**24,461**	**7,535**

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

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

The interest rates in financial year 2009 were between 0.1 percent and 1.2 percent (PY: between 0.75 percent and 3.4 percent).

(27) EQUITY

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

As of 31 December 2009, the share capital amounted to EUR 6,700.7 thousand (PY: EUR 6,684.5 thousand). It was divided into 6,700,700 (PY: EUR 6,684,500) no-par bearer shares (common shares) and was fully paid-in at the reporting date for the consolidated financial statements. The increase in share capital by 16,200 common shares resulted from the exercise of stock options issued in 2007.

After partial utilisation, the Authorised Capital of 7 July 2006 (Authorised Capital 2006/I) amounted to EUR 1,603 thousand at the reporting date (PY: EUR 1,603 thousand).

The additional paid-in capital consists of issue premiums paid in connection with capital increases and the recognition of stock options.

The retained earnings reserves originated from adjustment entries related to the first-time adoption of IFRS for the consolidated financial statements. In connection with the purchase of non-controlling interests in Phoenix Solar S.r.l., (formerly: Renewable Energies Development 2002 S.r.l., Rome), and Phoenix Solar S.L., Madrid, and Scarlatti Srl., Eppan an der Weinstraße, the difference between the acquisition cost of the non-controlling interests and the book value of the non-controlling interests received in exchange, that difference being EUR 1,030 thousand, was directly recognised in retained earnings, with no effect on income, by application of the Economic Entity Model prescribed by IFRS 3 (revised) and IAS 27 (revised).

The Annual General Meeting of 7 July 2006 further resolved to increase the company's share capital on a conditional basis by up to EUR 552,500 through the issuance of up to 552,500 new bearer shares (Conditional Capital 2006). The Conditional Capital will be executed only to the extent that holders of subscription rights to be issued by the company in the period until 1 July 2011 by virtue of the authorisation resolution of the annual general meeting of 7 July 2006 in connection with the Stock Option Plan 2006 will exercise their right to subscribe shares of the company and the company does not issue treasury shares in order to fulfil those subscription rights.

On 4 August 2007, the Executive Board was authorised by the Supervisory Board to dispose of these 552,500 subscription rights in blocks of 221,000, 110,500 und 221,000. 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), under which a total of 195,850 (PY: 109,750) stock options of Phoenix Solar AG could be granted to members of the Executive Board, members of the management of the Group companies and other key personnel.

Of the 33,250 stock options issued in 2007, 6,250 (PY: 5,000) stock options expired due to resignations and 16,200 stock options were exercised for the first time as of the reporting date. Each stock option under the SOP 2006 (2007) entitles the holder to purchase one common share of the company at the exercise price of EUR 19.32 per share (nominal value: EUR 1). As of the reporting date, the corresponding capital contributions in the amount of EUR 313 thousand were paid into the company for its free disposal and were recognised accordingly in the items of share capital, in the amount of EUR 16.2 thousand, and additional paid-in capital, in the amount of EUR 297 thousand. As of 31 December 2009, therefore, the Conditional Capital was reduced to EUR 526,300.

Under Agenda Item III, the Annual General Meeting of 3 June 2009 adopted the resolution on the utilisation of the accumulated distributable profit of Phoenix Solar AG from financial year 2008 for the distribution of a dividend of EUR 0.30 per share. A total amount of EUR 2,005 thousand (PY: EUR 1,337 thousand) was paid to shareholders as a dividend in respect of the dividend-qualifying share capital of EUR 6,684.5 thousand.

The accumulated other comprehensive income underwent the following changes in financial year 2009:

Accumulated other comprehensive income	2009 k€
Balance at 01/01/2009	42,190
Dividend distribution	– 2,005
Currency difference	– 61
Consolidated profit for 2009	8,555
Balance at 31/12/2009	**48,679**

The non-controlling interests in consolidated equity presented in the balance sheet are related to the investments in Phoenix Solar Pte Ltd., Singapore, and Phoenix Solar L.L.C., Muscat, Oman. Due to the profit situation in Singapore in the years 2007 and 2008, the capital contribution of the non-controlling shareholders was partially consumed, so that the proportional loss from the year 2008 was borne in part (EUR 40 thousand) by the Group and was then netted with the corresponding profit shares in 2009, because no contractual or corporate-law obligation to render additional capital contributions is in effect.

Disclosures concerning capital management

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

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

- Assuring the necessary capital base to finance the company's growth
- Managing working capital in the most exact way possible
- Monitoring the equity base
- Assuring the company's status as a going concern

As a consequence of these goals, one essential task of capital management is to monitor compliance with minimum capital ratios and observance of the interest coverage ratio stipulated in the covenants to credit facility agreements with banks.

The capital managed by this means is balance sheet equity.

The obligation to demonstrate compliance with the required minimum equity ratio in the consolidated financial statements was fulfilled in financial year 2009. Due to project delays and as a consequence of the deterioration of module prices, the "interest coverage ratio" covenant was temporarily breached in the third quarter. As is customary in such cases, a waiver was negotiated, the costs of which (waiver fee) must be borne by the borrower, and therefore the adjustments of credit terms stipulated in the credit agreement were carried out. Due to the business performance in the fourth quarter and the terms stipulated in the waiver, the financing situation of the Phoenix Group in 2010 will be nearly unchanged from the original syndicated financing.

The results were the following:

Equity ratio	31/12/2009 k€	31/12/2008 k€
Equity	97,264	89,311
Total assets	182,232	127,763
Equity ratio	53.4 %	69.9 %

(28) FINANCIAL LIABILITIES

Financial liabilities are presented in the following balance sheet items:

Financial liabilities	31/12/2009 k€	31/12/2008 k€
Noncurrent financial liabilities (due in more than one year)	47	0
Current financial liabilities (due in one year or less)	6	53
Total	**53**	**53**

		Due in the following time ranges as of the reporting date			
As of 31/12/2009	Book value k€	Fewer than 30 days k€	Between 31 and 90 days k€	Between 91 and 360 days k€	More than 360 days k€
Financial liabilities	53	0	2	5	46
As of 31/12/2008					
Financial liabilities	53	3	10	40	0

This item consists mainly 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 p. a.

The loan is secured by rights in rem.

(29) PROVISIONS

The provisions break down as follows:

Noncurrent provisions	Balance at 01/01/2009 k€	Reclassification k€	Utilisation k€	Reversal k€	Compounding k€	Addition k€	Balance at 31/12/2009 k€
Warranty provisions	1,584	– 672	78	0	91	327	1,252
Site restoration provisions	61	0	0	0	6	52	119
Other	128	0	0	0	0	23	151
Total	**1,773**	**– 672**	**78**	**0**	**97**	**402**	**1,522**
Current provisions							
Warranty provisions	213	672	238	1	18	350	1,014
Litigation and arbitration costs	969	20	780	89	0	104	224
Complaints	15	0	0	0	0	75	90
Other	20	– 20	0	0	0	500	500
Total	**1,217**	**672**	**1,018**	**90**	**18**	**1,029**	**1,828**

The warranty provision has been established to account for statutory and contractual warranty obligations and for accommodation payments to customers. Nearly 100 percent of noncurrent warranty provisions related to the project business have a term of up to five years. The maximum time frame for provisions is 20 years.

The provision for litigation and arbitration costs is 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 of ten percent.

Provisions for complaints were established for customer complaints that had not yet been raised as of the reporting date, based on past experience values.

The other noncurrent provisions include, in particular, the provision for the obligation to archive business documents. Otherwise, the other provisions have been established to account for matters involving amounts of subordinate importance in individual cases.

(30) TRADE PAYABLES

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

All trade payables are due in less than one year.

(31) OTHER LIABILITIES

The other liabilities presented in the balance sheet are sub-divided into financial and non-financial liabilities.

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

The other financial liabilities break down as follows:

Other financial liabilities	31/12/2009 k€	31/12/2008 k€
Personnel-related liabilities	1,687	2,071
Other	2,636	2,722
Total	**4,323**	**4,793**

The personnel-related liabilities consist mainly of employee bonuses and management bonuses.

In addition, the financial liabilities include forward exchange deals and interest rate swaps classified as "held-for-trading" in the amount of EUR 500 thousand (PY: EUR 84 thousand).

The fair value of forward exchange deals was calculated by contrasting the corresponding foreign currency amounts at the forward exchange rate, on the one hand, with the value that would have arisen if the foreign currency amounts had been translated at the forward exchange rate that would have been applied if a corresponding swap transaction with the same final maturity had been concluded on the reporting date (so-called second level). The difference between these two amounts yields the fair value adjustment. Assuming a 10 percent change in the exchange rate parity, the book value of forward exchange deals can fluctuate between EUR – 2,343 and EUR 2,966 thousand in the time until the exercise date.

Under the interest rate swap, the variable or fixed interest rate of the underlying transaction is swapped over the entire term. If the interest rate of all interest rate hedges would have increased or decreased by 100 basis points as of 31 December 2009, the financial result and the fair value of hedging transactions would have been higher by EUR 503 thousand or lower by EUR 169 thousand (31 December 2008: EUR 0 thousand).

Other non-financial liabilities	31/12/2009 k€	31/12/2008 k€
Sales tax liabilities	10,701	3,669
Liabilities under wage tax and social security	387	411
Personnel-related liabilities	798	458
Liabilities under advance payments received	2,268	0
Other	11	0
Total	**14,165**	**4,538**

The personnel-related liabilities consisted of arrearages for vacation not yet taken or overtime hours worked.

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(32) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

The currency translation difference of EUR - 88 thousand (PY: EUR - 30 thousand) represents the exclusive component of "comprehensive income", which must be disclosed separately from the self-standing income statement as of 1 January 2009, in accordance with the new IAS 1.

(33) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been prepared in accordance with the provisions of IAS 7. In the cash flow statement, cash flows are divided into the cash flow from operating activities, the cash flow from investing activities and the cash flow from financing activities. Changes in the group of consolidated companies are presented separately.

The cash flow from operating activities is calculated by means of the indirect method, while the cash flows from investing activities and financing activities are calculated by means of the direct method, based on exclusively cash transactions.

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all the cash and cash equivalents presented in the balance sheet, i.e. cash on hand and cash in banks, to the extent they will be available within three months (see Note (26)).

F. OTHER DISCLOSURES

(34) SEGMENT REPORT

Operating segments

Disclosures regarding the operating segments according to IFRS 8 must be applied, as a rule, from the beginning of financial year 2009.

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

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

- Power Plants: Planning, distribution, construction and maintenance of photovoltaic plants
- Components & Systems: Distribution of trading stock

The operating profit or loss is segmented on the basis of cost accounting reports. The revenues of the Power Plants segment refer exclusively to project-related work, so that they also include the corresponding pro-rated profits recognised as of the reporting date.

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

The segment information for these operating segments is presented below:

Financial year 2009	Power Plants k€	Components & Systems k€	Other k€	Consolidation k€	Group k€
Segment profit or loss statement					
External revenues	173,974	299,004	54	0	473,032
Revenues between the segments	0	0	0	0	0
Segment revenues	**173,974**	**299,004**	**54**	**0**	**473,032**
Segment profit or loss	6,080	6,118	5	– 45	12,158
Income from associated companies	18	0	0	0	18
EBIT					12,176
Financial result					– 1,242
Consolidated profit before taxes					10,934
Income tax expenses					2,379
Profit before minority interests					8,555
Minority interest in profit or loss					0
Consolidated profit or loss for the period					**8,555**
Other information					
Capital expenditures	1,073	2,043	0	0	3,116
Scheduled depreciation and amortisation	230	437	0	0	667
Non-cash expenses	547	1,910	0	0	2,457
Non-cash income	1,303	1,173	0	0	2,476
Assets					
Segment assets	60,289	113,977	21	0	174,287
Shares in associated companies	404	0	0	0	404
Non-assigned assets					7,541
Consolidated assets					**182,232**

Financial year 2008	Power Plants k€	Components & Systems k€	Other k€	Consoli-dation k€	Group k€
Segment profit or loss statement					
External revenues	187,809	214,622	63	0	402,494
Revenues between segments	0	0	0	0	0
Segment revenues	**187,809**	**214,622**	**63**	**0**	**402,494**
Segment profit or loss	19,836	13,959	8	0	33,803
Income from associated companies	20	0	0	0	20
EBIT					33,823
Financial result					– 378
Consolidated profit before taxes					33,445
Income tax expenses					9,767
Profit or loss before minority interests					23,678
Minority interest in profit or loss					23
Consolidated profit or loss for the period					**23,701**
Other information					
Capital expenditures	487	798	1	0	1,286
Scheduled depreciation and amortisation	163	262	0	0	425
Non-cash expenses	– 3,162	– 3,613	– 1	0	– 6,776
Non-cash income	528	603	0	0	1,131
Assets					
Segment assets	58,181	66,983	20	0	125,184
Shares in associated companies	436	0	0	0	436
Non-assigned assets					2,143
Consolidated assets					**127,763**

The revenues of the Power Plants segment derive exclusively from project-related work, so that project revenues as of the reporting date included both finally invoiced projects and ongoing projects, the revenues of which were recognised on a period accrual basis by application of the percentage-of-completion method according to IAS 11. These revenues amounted to EUR 61,845 thousand as of the reporting date (PY: EUR 5,438 thousand). By reason of the business model and the goods and services offered on that basis, intersegment revenues are excluded, as a general rule. In view of the current customer portfolio, a concentration of revenues with one or few customers is likewise somewhat limited; the same is true on the procurement side.

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

Non-cash income includes income from the reversal of provisions, liabilities and 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. Although the Group Executive Board takes the utmost care to ensure that individual business relationships do not effectively create an overly important customer in the Group's portfolio, the expansion and extension of the master agreement with KG Allgemeine Leasing GmbH & Co. (KGaL) at the beginning of the financial year gave KGaL the status of an important customer in the Power Plants segment.

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

Revenues by region	2009 k€	2008 k€
Germany	445,388	242,837
EU excluding Germany	22,790	157,548
Other	4,854	2,109
Total	**473,032**	**402,494**

Furthermore noncurrent assets were divided among the following regions:

Noncurrent assets by region	31/12/2009 k€	31/12/2008 k€
Germany	5,197	2,687
EU excluding Germany	463	447
Other	53	33
Total	**5,713**	**3,167**

(35) DISCLOSURES CONCERNING DEALINGS WITH RELATED PARTIES

An interest-bearing loan of EUR 505 thousand (PY: EUR 435 thousand) maturing at the end of 2012 was extended to the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, in which the Group had purchased an equity investment in financial year 2007. Based on the fair market interest rate of 6.5 percent, Phoenix Solar AG collected interest income of EUR 29 thousand in 2009 (PY: EUR 24 thousand).Disclosures concerning shareholdings of directors and officers:

Executive Board	No. of shares 31/12/2009	No. of shares 31/12/2008
Manfred Bächler	172,530	183,530
Dr. Murray Cameron	69,750	69,750
Dr. Andreas Hänel	227,200	227,200
Sabine Kauper	190	190
Ulrich Reidenbach	216	160
Total holdings of Executive Board members	**469,886**	**480,830**

Supervisory Board	No. of shares 31/12/2009	No. of shares 31/12/2008
J. Michael Fischl	-	-
Ulrich Fröhner	18,600	18,600
Ulrich Th. Hirsch	-	-
Prof. Dr. Klaus Höfle	1,575	1,575
Dr. Patrick Schweisthal	-	-
Prof. Dr. Thomas Zinser	-	-
Total holdings of Supervisory Board members	**20,175**	**20,175**

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

In financial year 2007, 4,500 stock options were granted to every member of the Executive Board; the fair value of each such stock option at the reporting date was EUR 10.177. In financial year 2008, 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. In financial year 2009, another 9,000 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 17.972.

(36) CONTINGENT LIABLITIES

Contingent liabilities result, if at all, from customary contractual warranty obligations that can arise in connection with contracts in the Power Plants segment and from orders in the Components & Systems segment.

(37) CONTINGENT ASSETS AND LIABILITIES

There were no contingent assets and liabilities.

(38) OTHER FINANCIAL COMMITMENTS

The Group has total financial commitments of EUR 5,652 thousand (PY: EUR 4,227 thousand) under various rental and lease agreements. Of this total, an amount of EUR 1,085 thousand (PY: EUR 1,159 thousand) was due in less than one year, EUR 2,336 thousand (PY: EUR 1,725 thousand) between one and five years and EUR 2,231 thousand (PY: EUR 1,343 thousand) in more than five years. Some real estate leases were concluded with renewal options of five years; the exercise of such options must be declared at the end of 2013 at the latest.

As of the reporting date, the Group had firm order commitments under several purchasing agreements in the total amount of EUR 109,221 thousand (PY: EUR 21,107 thousand). The firm orders for noncurrent assets amounted to EUR 96 thousand (PY: EUR 27 thousand).

Under framework contracts with manufacturers of photovoltaic modules, the Group had acceptance obligations for material purchases (solar modules) in the amount of EUR 502,146 thousand. An additional framework agreement based on planned volumes and estimated prices was signed with a manufacturer of crystalline modules for modules worth EUR 604,204 thousand with a term up until 2013.

(39) RISK MANAGEMENT SYSTEM

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

The objective of financial risk management is to limit this risk by means of ongoing operational and financial activities. 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 2009, the Group disposed of forward exchange deals with a volume of EUR 26,229 thousand (PY: EUR 3,235 thousand).

Accordingly, Phoenix Solar AG is exposed to market price risks in relation to certain currency derivatives, which are used to hedge underlying transactions and budgeted items. Exchange rate changes in the currencies underlying such financial instruments are recognised in other operating income or expenses (measurement result from the adjustment of financial assets to fair value). If the euro had risen or fallen by ten percent against all currencies as of 31 December 2009, the other operating income or expenses and the fair value of hedging transactions would have been higher by EUR 2,966 thousand or lower by EUR 2,342 thousand, respectively (31 December 2008: EUR 315 thousand higher or EUR 315 thousand lower, respectively). The hypothetical profit effect results from the currency sensitivities of the euro to the Japanese yen and of the euro to the US dollar.

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

Moreover, the company also carries out interest rate hedging management as, in connection with the syndicated loan, half of the loan amount was hedged against interest rate risk.

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 2009, the financial result and the fair value of hedging instruments would have been higher by EUR 503 thousand or lower by EUR 169 thousand, respectively (31 December 2008: EUR 0 thousand).

Default risk

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

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

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

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

Liquidity risk

In order to finance the growth of the Phoenix Group, Phoenix Solar AG entered into a syndicated loan agreement in the amount of EUR 150,000 thousand with a term of three years on 20 November 2008. The credit facility serves to finance the working capital of the Phoenix Solar Group and the Group's guarantee and letter of credit needs. The lending syndicate is composed of the Group's previous regular banks and one new bank. The syndicate leader and mandated lead arranger is BayernLB, the senior lead arrangers are Deutsche Bank AG, Dresdner Bank (now Commerzbank) and HypoVereinsbank AG – Member of UniCredit Group, and the co-arrangers are LfA Förderbank Bayern and Sparkasse Fürstenfeldbruck. In addition, the Group has entered into bilateral guarantee credit agreements of indefinite duration with a total volume of EUR 28,000 thousand. In total, the credit facility amounted to EUR 178,000 thousand as of the reporting date.

(40) SHARE-BASED PAYMENT FORMS

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

By virtue of this authorisation, the Executive Board of Phoenix Solar AG established a Stock Option Plan on 10 September 2007 ("Stock Option Plan 2006"; SOP 2006), under which a total of 195,850 stock options of Phoenix Solar AG were granted in three tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 10,750 of those stock options had expired due to resignations and 16,200 had been exercised. As of the reporting date, therefore, there remained 158,150 stock options, which can be exercised by the beneficiaries only if the beneficiary will be employed by the company or a Group company and the employment relationship will not have been cancelled by either party with valid effect at the time of exercising the stock options.

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

	SOP 2006 (2009)	SOP 2006 (2008)	SOP 2006 (2007)
Exercise strategy:	Earliest possible exercise		
Issue date:	08/09/2009	10/09/2008	10/09/2007
Effective date of measurement:	08/09/2009	10/09/2008	10/09/2007
Stock exchange price of the company's share at the effective date of measurement:	€ 36.40	€ 43.46	€ 18.90
Vesting period:	2 years	2 years	2 years
Stock option life (including vesting period):	7 years	7 years	7 years
Exercise price:	€ 35.11	€ 46.39	€ 19.32
Risk-free interest rate:	2.95 %	4.04 %	4.09 %
Volatility:	64.83 %	61.35 %	66.33 %
Annual dividend per share:	€ 0.25	€ 0.20	€ 0.10
Due date of dividends (assumption):	approx. 15 June of every year		
No. of simulations conducted:	10,000,000	10,000,000	10,000,000

- 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 Stock Exchange (or a comparable successor system) exceeds the exercise price at the time of exercising the stock option by 40 percent for ten consecutive trading days in the first year of the exercise period. This percentage increases by 20 percentage points per year in each of the following years.

The volatility was calculated as the historical volatility on the basis of the share price performance in the periods from 19 November 2004 to 13 July 2007 (Tranche I), from 1 July 2005 to 12 September 2008 (Tranche II) and from 1 July 2006 to 5 October 2009 (Tranche III).

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) and EUR 17.972 (Tranche III).

The stock options showed the following development in financial year 2009:

	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Stock options at 01/01/2008			32,000	
Allotted in 2008		76,500	0	
Exercised in 2008		0	0	
Expired during the term in 2008		– 4,500	– 5,000	
Stock options at 31/12/2008 - 01/01/2009		**72,000**	**27,000**	**99,000**
Allotted in 2009	86,100	0	0	
Exercised in 2009	0	0	– 16,200	
Expired during the term in 2009	0	0	0	
Stock options at 31/12/2009	**86,100**	**72,000**	**10,800**	**168,500**

The average weighted share price upon first-time exercise of the stock options was EUR 39.45.

The total value of the 168,500 stock options measured was therefore EUR 7,200 thousand (PY: EUR 1,727 thousand).

The expense of share-based payment forms in financial year 2009 was EUR 1,075 thousand (PY: EUR 372 thousand), due to the fact that the expense is distributed over the period from the issue date to the expiration of the vesting period.

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

(41) EVENTS AFTER THE REPORTING DATE

Executive Board proposes a dividend payment

The Executive Board of Phoenix Solar AG resolved on 9 March 2010 to propose a dividend payment for financial year 2009 of EUR 0.20 per share (PY: EUR 0.30) to the Annual General Meeting. This resolution is subject to the reservation that the annual financial statements for financial year 2009 will be officially adopted and the Supervisory Board will grant its consent.

All 6,700,700 shares of Phoenix Solar AG that are currently listed for trading qualify for dividends.

The final dividend proposal to the Annual General Meeting, which will be held on 16 June 2010, will be announced along with the notice of meeting for the Annual General Meeting.

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

(42) EXECUTIVE BOARD OF THE PARENT COMPANY

- Dr. Andreas Hänel, Diplom-Ingenieur, Sulzemoos (Chief Executive Officer)
- Manfred Bächler, Diplom-Ingenieur, Senden (Chief Technology Officer)
- Dr. Murray Cameron, Diplom-Physiker, Garching (Chief Operating Officer)
- Sabine Kauper, Diplom-Betriebswirtin (FH), Merching (Chief Financial Officer)
- Ulrich Reidenbach, Diplom-Ingenieur, Munich (Chief Sales Officer)

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

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

- Dr. Murray Cameron is the Chairman of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore
- Ulrich Reidenbach is a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore
- Sabine Kauper is a member of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, and since 15 June 2009 also a member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG, Unterneukirchen. Due to the dissolution of the Supervisory Board of Phoenix Solar S.r.l., Italy, Sabine Kauper is no longer a member of the Supervisory Board of Phoenix Solar S.r.l.

The compensation granted to the Executive Board in financial year 2009 amounted to EUR 1,822 thousand (PY: EUR 2,066 thousand).

This compensation was divided up as follows:

Compensation of the Executive Board	Components not dependent on success k€	Components dependent on success k€	Components with a long-term incentive effect k€	Total k€
Dr. Andreas Hänel	175	45	162	382
Manfred Bächler	169	41	162	372
Dr. Murray Cameron	140	29	162	331
Sabine Kauper	148	40	162	350
Ulrich Reidenbach	165	60	162	387
Total	**797**	**215**	**810**	**1.822**

The components with a long-term incentive effect consisted of 45,000 options to purchase shares of Phoenix Solar AG. A total of 9,000 stock options were granted to each member of the Executive Board in active service at the issue date; the fair value of each stock option at the grant date was EUR 17.972.

(43) SUPERVISORY BOARD OF THE PARENT COMPANY

- J. Michael Fischl, Diplom-Kaufmann, Abensberg (Chairman), Head of Central Internal Audit
- Ulrich Fröhner, Stuttgart (Vice Chairman), energy consultant
- Ulrich Th. Hirsch, Schondorf am Ammersee, lawyer and tax consultant
- Prof. Dr. Klaus Höfle, Giengen, Diplom Wirtschaftspädagoge, Managing Director of stairconsult | Prozessberatung and associate lecturer at three universities
- Dr. Patrick Schweisthal, Rohrbach, lawyer
- Prof. Dr. Thomas Zinser, Hohenschäftlarn, tax consultant and professor at the University of Applied Sciences of Landshut for the subjects of tax, accounting and general business administration

The total compensation of the Supervisory Board members in financial year 2009 amounted to EUR 214 thousand (PY: EUR 188 thousand).

This amount was divided up as follows:

Compensation of the Supervisory Board	Components not dependent on success k€	Components dependent on success k€	Components with a long-term incentive effect k€	Total k€
J. Michael Fischl	24	40	0	64
Ulrich Fröhner	17	20	0	37
Ulrich Th. Hirsch	14	14	0	28
Prof. Dr. Klaus Höfle	14	14	0	28
Dr. Patrick Schweisthal	14	14	0	28
Prof. Dr. Thomas Zinser	15	14	0	29
Total	**98**	**116**	**0**	**214**

(44) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The professional fee paid to the auditing firm in financial year 2009 and recognised as an expense for 2009 was divided up as follows:

	2009 k€	2008 k€
a) Services related to the audit of financial statements	212	142
b) Other certification services	137	61
c) Tax advisory services	0	0
d) Other services	0	0
Total	**349**	**203**

The other certification services related mainly to the critical review of the half-year financial statements and other review activities related to the interim financial statements.

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

The Executive Board and Supervisory Board have issued a Declaration of Conformity with the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporations Act (AktG) and made it permanently available to shareholders at the company's website. (http://www.phoenixsolar.com/InvestorRelations/NewsAndNotes/Corporate_Governance/)

The last issuance and publication of the Declaration occurred on 19 March 2009.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 9 March 2010
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

Ulrich Reidenbach
(Chief Sales Officer)

AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

To the best of our knowledge, we hereby affirm that, pursuant to the generally accepted accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, financial position and the results of operations of Phoenix Solar AG, and that the Management Report gives a true and fair reflection of the development of the Phoenix Group's business, including its performance and situation, as well as describing the material risks and opportunities inherent in the prospective development of the Group.

Sulzemoos, 9 March 2010
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Dr. Murray Cameron
(Chief Operating Officer)

Manfred Bächler
(Chief Technology Officer)

Ulrich Reidenbach
(Chief Sales Officer)

AUDITOR'S REPORT

This report was originally prepared in the German language.
In case of ambiguities the German version shall prevail.

We have audited the consolidated financial statements prepared by Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of financial position, consolidated statement of changes in equity, consolidated cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the Group management report in accordance with IFRS as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the parent Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 23rd of March 2010

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. C. Salzberger
Wirtschaftsprüfer

ppa. A. Haas
Wirtschaftsprüfer

ADDITIONAL INFORMATION

PHOTOVOLTAIC GLOSSARY

ACCUMULATOR
An accumulator stores electrical energy. In photovoltaics, accumulators are used for stand-alone systems.

ALTERNATING CURRENT
Alternating current is electrical current in which the direction and the voltage changes in accordance with certain laws of physics. Alternating current is found in most electrical grids (230 volts, 50 hertz).

AMORPHOUS MODULES
Modules made of amorphous silicon (a-Si) are a type of thin-film module. Their cells are made up of glass or metal panes coated with a thin layer of silicon. The name comes from the fact that, when the glass or metal is coated, the silicon atoms are not distributed in the crystalline structure but are spread amorphously, i.e. at random. a-Si modules can be recognised by their brown colour.

AMORTISATION
Energetic amortisation (also known as energy return time) is the time which a solar electricity system needs to generate the energy used for its production and installation. When the period of its energetic amortisation has expired, its balance of energy is then positive. There is no energetic amortisation in the case of power plants operated with fossil fuels.

BALANCE OF SYSTEM COSTS (BOS COSTS)
In a photovoltaic system the balance of system (BoS) costs are made up of the costs of all components except those of the modules. BoS costs comprise planning costs, construction preparation costs, the mounting system, DC cabling, inverters, buildings, grid connection and installation.

CDTE MODULES
CdTe modules are thin-film modules which use the semiconductor material cadmium telluride to generate electricity. The cadmium content is low. Heavy metal cannot be non-technically released so there is no danger for the user or the environment.

CIS OR CIGS MODULES
CIS or CIGS modules are a type of thin-film module whose solar cells are made up of several layers of copper indium (gallium) selenide which are doped with different impurities. Efficiency is currently around twelve percent.

CO_2 SAVINGS
Photovoltaic plants make a contribution to climate protection: An example is the 2.3 megawatt solar power plant on the roof of the EvoBus production building in Neu-Ulm which saves around 1,400 tons of carbon dioxide (CO_2) a year.

CRYSTALLINE MODULES
Crystalline modules are made of solar cells with crystalline silicon which is around 0.2 to 0.4 millimetres thick. A differentiation is made between modules with monocrystalline and polycrystalline (also known as multicrystalline) cells. The basic material is ultra-pure polysilicon. Efficiency is between 14 and 18 percent.

DEGRADATION
Solar cells age as, over the course of their lifetime, their efficiency diminishes. This natural process of ageing induced by light irradiation is called degradation. In calculating yield assumptions this effect is generally already included.

DEGRESSION
The German Renewable Energies Act (Erneuerbare-Energien-Gesetz (EEG)) provides for an annual lowering of the feed-in tariff. The compensation rates for roof-mounted systems newly built, for instance, will fall by 8 percent on 1 January 2010 and by a projected 9 percent from 2011 onwards. A sliding scale regulates the reduction: If the newly installed output in a specific year exceeds or falls below a defined growth corridor, degression is either raised or lowered accordingly by one percentage point in the following year. Degression is intended to promote competition in the solar industry and to lead to lowering the cost of generating solar electricity.

DIRECT CURRENT
Direct current is an electric current which maintains the same direction and a constant electrical voltage. Solar modules generate direct current.

EFFICIENCY
The efficiency generally denotes the relationship between useful and used energy. The efficiency of solar cells indicates the percentage of the sun's energy which is converted into electric charge.

FEED-IN TARIFFS
Feed-in tariffs constitute the fixed price, as defined under the German Renewable Energies Act (EEG), for feeding solar electricity into the grid and which must be paid by the grid operator to the producer of solar electricity. The amount of the remuneration rate per kilowatt hour depends on the type and size of the system and the year when it was taken into operation, and will remain steady over a period of 20 years.

FLAGSHIP PROJECT
A flagship project is a completed project which, along with its original purpose, is considered to be exemplary and set a benchmark for the whole sector. The reasons may be the successful deployment of new technologies, new areas of application or new yardsticks set in respect of yield and return.

GERMAN RENEWABLE ENERGIES ACT (EEG)
The German Renewable Energies Act (EEG) came into force on 1 April 2000. Its objective is to promote the generation of energy from sources of renewable energies. Among other things, it regulates the feeding in and remuneration of renewable energies into the grid. The last amendment to the Act has been in force since 1 January 2009 and, in particular, provides for a swifter degression of the feed-in tariffs for photovoltaic systems. Another amendment to the Act is expected over the course of 2010. The emphasis will be on lowering the tariffs for solar electricity again. In the meantime, the EEG is regarded as a model and has already been used as a blueprint by a number of European countries (France, Italy and Greece, for example) for similar legislation.

GRID-CONNECTED SYSTEMS
Grid-connected systems are solar power plants which have been connected up to the power supply system and continuously feed in solar electricity.

GRID PARITY
The grid parity of solar electricity means that the price of generating one kilowatt hour of solar electricity is no higher than the end consumer price for electricity from the mains socket. Net parity is therefore tied to the location of consumption, as solar electricity is often generated where it is consumed. The definition of net parity is not therefore a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

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

KILOWATT (KW)
The kilowatt (kW) is the general unit of measurement for output. The electrical output of a solar power plant is also given in kW.

KILOWATT HOUR (KWH)
The kilowatt hour (kWh) is a unit of measurement for energy used or generated. One kWh equals a kilowatt over the period of an hour. The kWh is the unit of energy commonly used for the measurement of household electricity consumption. One kilowatt hour is sufficient to light one bulb of a hundred watts for ten hours.

MEGAWATT (MW)
A megawatt is a unit of measurement for output, and is equivalent to one million watts (10^6 W). The photovoltaic power plant on the roof of the New Munich trade fair building which, at the time of its completion in 2002, was the world's largest and most technically advanced power plant, has a peak output of 2.1 MW.

MICROMORPHOUS MODULES
Micromorphous modules (also known as tandem modules) combine both amorphous and microcrystalline technologies. The light spectrum absorbed is raised to the near-infrared region through an additional microcrystalline layer of silicon applied to an amorphous silicon layer. Micromorphous modules are therefore more efficient than amorphous modules.

MONOCRYSTALLINE CELLS
The input material for monocrystalline cells is ultra-pure silicon which is extracted from silicon smelt and fabricated into wafers of up to twelve centimetres in diameter. All crystal lattices are evenly distributed in monocrystalline. Monocrystalline cells are more efficient than polycrystalline cells but are also more expensive to manufacture. They can be recognised by their characteristic graphite colour.

NOMINAL OUTPUT
Nominal output (also known as peak output) is an indication of the output of a solar module or a solar power plant, for instance.

OPERATION
Along with configuration and system integration, the commercial and technical operation of solar power plants are key factors influencing the yield and therefore the return. Core tasks are to secure steady-state optimal operation, the monitoring and reporting of yield data, as well as compliance with the statutory provisions and periodic inspections.

PEAK POWER OUTPUT (PEAK OUTPUT)
The maximum power output possible from a solar module or power system under standard test conditions (STC) is defined as the peak power output (also known as peak power). It is measured in watt (W) and stated as watt peak (Wp).

PHOENIX POWER BRIDGE®
The Phoenix Power Bridge® is an innovative on-roof system developed by Phoenix Solar. It can be used for roofs which were formerly not suitable for the construction of a photovoltaic system. The construction derives from bridge building and allows span distances of up to six metres.

PHOENIX TECTO-SUN
Phoenix Tecto-Sun is a roof installation system developed by Phoenix Solar which enables photovoltaic systems to be swiftly and simply installed. It is the first one-roof installation system to have static calculations confirmed by an LGA audit (German Federal Trade Agency).

PHOTOVOLTAIC
Photovoltaic is defined as the environmentally compatible generating of electricity through tapping the sun's energy. In this process, solar cells linked up to one another in solar modules convert the sun's light into electricity.

POLYCRYSTALLINE CELLS
The basic material for polycrystalline (also known as multicrystalline) cells is ultra-pure silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into wafers which are 0.2 to 0.4 millimetres thick. The cells that result from this process are made up of many small single crystals, so-called crystallites, which are separated by grain boundaries. The pattern which results from the composition of different crystals is unmistakable, as is the bluish colour.

PRIVATE CONSUMPTION
Electricity produced by a solar power system can also be used for one's own consumption, alongside feeding into the public grid. Under the German Renewable Energies Act (EEG), each kilowatt hour produced and used for private consumption will be remunerated in an amount of 22.76 cent as from 1 July 2010.

RENEWABLE ENERGIES
Renewable energies (also known as regenerative energies) are defined as energies from a source which either renews itself in the short term or where use does not contribute to exhausting the respective source. This includes solar irradiation and hydropower, geothermics and the potential in the energy recoverable from tidal power or biomass. The share of renewable energy sources in Germany's energy consumption is now higher than 10 percent (source: BMU). The use of solar power through photovoltaics has recorded the highest growth rates in renewable energies for a number of years.

SOLAR CELLS
A solar module is made up of several solar cells which are connected to one another. Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect) which generates direct current. In the production of a solar cell, wafers from the semiconducting material silicon are doped (impurity doping). When two semiconductor layers with different impurities are put together, a so-called p-n junction is generated between the layers. An electric field is generated at this junction which separates the charge carriers released by photons. Voltage is tapped through the contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell. A differentiation is made between the different types of cells and modules.

SOLAR MODULES
A solar module is made up of a number of solar cells which are electrically connected in a series and which, after application of current connectors, are processed to form a module. The generally square solar cells are applied to a substrate, covered by a glass plate and laminated to protect them against weather exposure. A frame is often attached for the purpose of simplifying assembly. Solar modules customary in the markets are generally made from mono- or polycrystalline solar cells or thin-film modules.

SOLAR SILICON
Solar silicon (also known as polysilicon) is the basic material used in the production of crystalline solar modules. The production of solar cells necessitates silicon in an ultrapure form (solar grade).

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

STANDARD TEST CONDITIONS (STC)
The specific data of a solar module are measured under standard test conditions. Standard test conditions are defined as the solar irradiation of one kilowatt (kW) per square metre, a module temperature of 25 degrees Celsius and a solar irradiation angle of 45 degrees.

STRING
A string is the parallel wiring of a number of solar modules connected up electrically in a series.

SYSTEM COSTS
The system costs of a photovoltaic plant are a key factor for determining the investment costs and therefore the length of the period of amortisation. They are made up of the costs of all technical components (solar modules, installation system, direct current master switch, inverters, cabling and electricity meters) and of the work performed (development, planning, building, handover etc.). Financing costs, costs of official approval, expert opinions, legal advice and similar services are not part of the system costs.

SYSTEM INTEGRATION
The efficiency of a photovoltaic system depends to a great degree on the ideal interaction of all the individual components. The more technologies and products offered for selection in the market, the greater the optimisation potential through consistent system integration. The tasks of system integration include the selection and checking of the individual components, as well as the reconciliation of all details in accordance with requirements, for example the installation system, taking account of local conditions on the respective site.

TEMPERATURE COEFFICIENT
The temperature coefficient is an indication of the degree to which module output changes if the temperature of the solar cell rises.

THIN-FILM MODULES
In the manufacturing of thin-film modules, active photovoltaic layers are applied directly to a glass or metal pane in an integrated process. The thickness of the layer applied in this process is a mere 0.002 millimetres. The thin coating of the active substance, amorphous silicon (a-Si), copper indium (gallium) selenide (CIS/CIGS) or cadmium telluride (CdTe) for instance, reduces the amount of material used and the manufacturing costs. Although, in comparison to crystalline modules, thin-film modules have lower conversion efficiencies, they have better temperature coefficients, are able to convert diffused light better and are less sensitive to shadowing.

TURNKEY POWER PLANT
In photovoltaics, a turnkey power plant is a fully configured solar power plant consisting of solar modules, assembly system, inverters and cabling.

VALUE CHAIN
The value chain is the whole mix of products and services which go to make up one product (solar power plant) or a service (system integration, operation), comprising all links in the chain, also including suppliers of raw materials and manufacturers, across system integrators and wholesalers and retailers through to the end customer.

WAFER
Wafers are round or rectangular silicon slices which are approximately 0.2 to 0.4 millimetres thick. In photovoltaics they are the primary product used in crystalline solar cells.

FINANCIAL GLOSSARY

AT-EQUITY INVESTMENT
The at-equity method (also known as net method) is used in accounting in the recognition of participating interests when the parent company can exert a major but not controlling influence. The equity of the participation is disclosed on a pro-rata basis in the financial statements of the parent company.

BALANCE SHEET
The balance sheet is a comprehensive listing of the assets and liabilities of a company and a reflection of its earnings capacity. Whereas the assets side provides information on the use of funds in the company, the liabilities side shows the source of funds and thus the financing.

BEARER SHARE
A security which securities a fraction of the share capital of a stock corporation. The bearer provides proof of share ownership through his/her securities account.

CAP RATE
The cap rate is the contractually agreed maximum interest rate, also known as strike rate.

CASH FLOW
The cash flow is an economic parameter which reflects the changes in cash and cash equivalents from the sales and other ongoing activities during a given period. The parameter facilitates an assessment of the extent to which a company is able to generate the funds required through sales processes for the preservation of the assets shown in the balance sheet and necessary for investment in expansion.

CASH FLOW STATEMENT
The cash flow statement quantifies changes in the liquidity potential over time and shows the causes of change.

CHANGE-OF-CONTROL CLAUSE
Opens up the options for managers, generally members of the Executive Board, to leave the company under conditions defined in the event of a change of control, for instance through a majority shareholder buying into the company.

COMPLIANCE
Compliance is defined as the observance of rules, codes of conduct and guidelines.

COST-TO-COST METHOD
Sales and the income from contracts are recorded in the proportion of actual manufacturing costs incurred relative to the expected overall costs.

COVENANT
Contractual loan agreement on the obligations of the borrower.

DERIVATIVE
Derivatives are instruments which derive their value from other financial instruments. The value depends on the development of the price of the underlying.

DIRECTOR'S DEALINGS
Private securities transactions carried out by people with management duties in listed stock corporations and related persons in the securities of the respective company. Pursuant to Section 15a of the German Securities Trading Act (WpHG), these transactions must be reported.

DISCOUNTED CASH FLOW METHOD (DCF)
Discounting of future excess cash flows to calculate the value of an enterprise.

DIVIDEND
Payment made to the shareholders depending on profit.

D&O INSURANCE
An insurance policy covering financial loss liability taken out by a company for the Executive Board and Supervisory Board.

EBIT
Earnings before interest and taxes within a given period.

EBIT MARGIN
Ratio of EBIT to sales divided by 100 and expressed as a percentage figure. The EBIT margin shows how much operating profit there is before interest and taxes and level of the financial result per sales unit.

EQUITY RATIO
Share of equity in the whole share capital.

FAIR VALUE
The amount at which an asset could be exchanged or a liability settled in a transaction between expert willing parties acting independently of one another.

FORWARD TRANSACTION
With a forward transaction, the settlement of the respective transaction, i.e. the date of delivery and of the payment of the goods or services, will take place in the future.

FTE
Full-time equivalent; technical term from personnel management indicating how much a full-time position contributes to a performance indicator (e.g. sales) within a given period.

GERMAN CORPORATE GOVERNANCE CODE (GCGC)
The GCGC is a set of key statutory regulations on the management and supervision of German listed stock corporations and comprises recognised international and national standards on good and responsible corporate management. It is reviewed on an annual basis by a German Government Commission. Companies must explain deviations from the Code and publish a statement once a year.

GROSS DOMESTIC PRODUCT (GDP)
The total market value of all goods and services produced in a country in a given year.

HEDGING TRANSACTION
Securing of a portfolio against changes in the interest rate by using derivative financial instruments.

IAS
International Accounting Standards; accounting standards used as a basis by many companies to draw up their annual and interim financial statements.

IASB
International Accounting Standards Board; regularly revises the International Accounting Standards (IAS) and gradually replaces them through International Financial Reporting Standards (IFRS).

IFRIC
International Financial Reporting Interpretations Committee; group which is part of the International Accounting Standards Committee Foundation (IASC) and which publishes interpretations of IFRSs and IASs.

IFRS
International Financial Reporting Standards; international accounting standards issued by the IASB for companies. Capital market-oriented companies listed in Prime Standard of Deutsche Börse must apply IFRS in accordance with the German Commercial Code (HGB).

INCOME STATEMENT
The income statement itemises the revenues and expenses incurred in a given period. It is an integral part of the financial statements, alongside the balance sheet.

INTEREST RATE CAP
Contractual agreement on a maximum interest rate against payment of a premium.

INTEREST RATE SWAP
An interest rate derivative is where two contractual parties (counterparties) agree to exchange one stream of future interest payments against another based on a specified principal amount.

MARKET CAPITALISATION
A measurement of the current market value of a company on the stock exchange. It is calculated by taking the current share price and multiplying it by the number of shares issued.

NO-PAR VALUE SHARE
As opposed to par value shares to which a certain amount in the share capital is assigned, no-par value shares securitise a percentage amount in the share capital of a company.

ORDINARY SHARE
Securitises all shareholder rights accruing to the owner; the most common form of shares on German stock exchanges.

OUTSIDE-BASIS DIFFERENCES
Amount in calculating and disclosing deferred taxes of a parent company based on hidden differences between the tax basis and the equity capital of a participation as against the corresponding amount recognised under IFRS.

PERCENTAGE-OF-COMPLETION METHOD
Option under IAS of – under certain conditions - disclosing revenues and income from contracts commenced but not yet completed in the income statement. Disclosure is made in proportion to the degree of completion.

PRIME STANDARD
Sub-segment of the regulated market of Deutsche Börse for companies which fulfil particularly high transparency standards.

ROCE
Return on capital employed; shows EBIT in relation to capital employed within a period in order to reflect the profitability of total capital.

SHARE CAPITAL
The share capital of a company, also known as nominal capital, is the sum total of the nominal values of the ordinary and preference shares (issued). In the company's balance sheet, the share capital is disclosed as subscribed capital under equity divided into shares, with securitisation of the right of the shareholder in the company.

SHARE OPTION
The right to purchase a certain number of shares at an agreed price (strike price) within a fixed period or at a certain time (call option).

SUBSCRIPTION RIGHT
Right of shareholders to subscribe to recently issued/new shares in proportion to their stake in the share capital up until that point. When subscription rights are exercised, the proportion in the share capital remains unchanged.

SYNDICATED LOAN AGREEMENT
A loan agreement between a company and a group of banks (syndicate).

WAIVER FEE
Fees remitted to obtain a waiver.

WORKING CAPITAL
Financial indicator denoting the liquidity of a company calculated by deducting current liabilities from current assets.

ABBREVIATIONS

A

AC	Alternating current
AER	Authority for Electricity Regulation
AktG	Aktiengesetz (German Stock Corporation Act)
AUD	Australian dollar

B

BIPV	Building Integrated Photovoltaic
BMU	Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit (German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety)
BOS	Balance of system
BSW	Bundesverband Solarwirtschaft (German Solar Industry Association)

C

CdTe	Cadmium tellurid
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIGS	Copper-Indium-Gallium-Selenide
CIS	Copper-Indium-Selenide
CO_2	Carbon dioxide
COO	Chief Operations Officer
CSO	Chief Sales Officer
CTO	Chief Technology Officer

D

DAX	Deutscher Aktienindex (German Share Index)
DC	Direct current
dena	Deutsche Energie-Agentur (German Energy Agency)

E

EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
EC	European Commission
ECB	European Central Bank
EDB	Economic Development Board
EEG	Erneuerbare-Energien-Gesetz (German Renewable Energies Act)
EPIA	European Photovoltaic Industry Association
ERP	Enterprise Resource Planning
EU	European Union
EUR	Euro

F

FIT	Feed-in tariff
FSC	Forest Stewardship Council
FTE	Full-time equivalent

G

GCGC	German Corporate Governance Code
GDC	Gross domestic product
GW	Gigawatt
GWh	Gigawatt hour
GWp	Gigawatt peak output

H

HGB	Handelsgesetzbuch (German Commercial Code)
HRB	Handelsregister B (German Commercial Register B)

I

IAS	International Accounting Standards
IASB	International Acccounting Standards Board
IDW	Institut der Wirtschaftsprüfer (Institute of Public Auditors)
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
ifo	Institut für Wirtschaftsforschung (Institute for Economic Research)
ISIN	International Securities Identification Number
ISO	International Organization for Standardization
IMF	International Monetary Fund

J

JPY	Japanese yen

K

kEUR	Thousand euro
kW	Kilowatt
kWh	Kilowatt hour
kWp	Kilowatt peak output

M

MW	Megawatt
MWh	Megawatt hour
MWp	Megawatt peak output

O

OMR	Omani real
OTC	Over-the-counter

P

para.	Paragraph
PoC	Percentage of completion
PPVX	Photon Photovoltaik-Aktien-Index (Photon Photovoltaic Stock Index)
PV	Photovoltaic
PY	Prior year

R

RAEC	Rural Area Electricity Company
RD	Real Decreto (Royal Decree)
RENIXX® World	World Renewable Energy Industrial Index
ROCE	Return on capital employed

S

SIC	Standing Interpretations Committee
SOP	Share Option Plan
SRI	Sustainable and Responsible Investment
STC	Standard Test Conditions

T

TecDAX	Technology DAX
TÜV	Technischer Überwachungs-Verein (German Technical Inspection Authority)

U

USD	US dollar

V

VAT	Value Added Tax

W

WKN	Wertpapier-Kenn-Nummer (Securities Identification Number)
WpHG	Wertpapierhandelsgesetz (German Securities Trading Act)

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on future developments which are based on management's current assessments. Words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "can/could", "plan", "project", "forecast", "should", and similar terms are indicative of such forward-looking statements. Such statements are subject to certain risks and uncertainties which are mainly outside the sphere of influence of Phoenix Solar AG, but which have an impact on the business activities, the success, the business strategy and the results. These risks and factors of uncertainty include, for instance, climatic change, changes in the state subsidisation of photovoltaics, the introduction of competitor products or technologies of other companies, the dependency on suppliers and the price development of solar modules, the development of the planned internationalisation of business activities, fierce competition as well as rapid technological change in the photovoltaic market. If one of these or other factors of uncertainty or risks should occur, or if the assumptions underlying the statements should prove incorrect, the actual results may diverge substantially from the results in these statements or implicit indications. Phoenix Solar AG does not have the intention nor will it undertake any obligation to realise forward-looking statements on an ongoing basis or at a later point in time as this is entirely dependent on circumstances prevailing on the day of their release.

← *Group structure of Phoenix Solar AG*

GROUP STRUCTURE AS OF 31/12/2009

FINANCIAL CALENDAR 2010

22/04/2010	Annual Report 2009
11/05/2010	Q1 Report/Interim Figures as per 31/03/2010
16/06/2010	Ordinary Annual General Meeting of Shareholders 2010
11/08/2010	Q2 Report/Interim Figures as per 30/06/2010
10/11/2010	Q3 Report/Interim Figures as per 30/09/2010

The updated financial calendar can be viewed on the Phoenix Solar AG website under
www.phoenixsolar.com/InvestorRelations/FinancialCalendar

This report is also available in German. Both versions are available for download on the Internet.
This is an English translation of the German original. Only the German version is binding.

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Making energy together