INTERIM REPORT
JANUARY TO SEPTEMBER 2011

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PHOENIX SOLAR AT A GLANCE

Company profile

Phoenix Solar AG, which has its headquarters in Sulzemoos near Munich, is a leading international photovoltaic system integrator. The listed 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. The Group is a leader in photovoltaic system technology. It focuses on the consistent lowering of system costs. Phoenix Solar maintains a sales network throughout Germany and subsidiaries in Spain, Italy, Greece, France, Singapore, Malaysia, Oman, Australia and the United States of America.

Financial figures

		Q1–Q3/2011	Q1–Q3/2010	Change
Revenues and results				
Revenues	k€	253,938	459,266	– 44.7 %
– Domestic	k€	104,289	361,770	– 71.2 %
– International	k€	149,649	97,496	53.5 %
Overall performance	k€	261,269	468,420	– 44.2 %
EBIT	k€	– 39,541	31,218	– 70,759 k€
– In % of revenues (EBIT margin)	%	– 15.6 %	6.8%	– 22.4 %-points
Consolidated net income for the period	k€	– 40,125	20,999	– 61,124 k€
Orders on hand	k€	237,241	271,152	– 12.5 %
Balance sheet[1]				
Total assets	k€	341,937	288,362	18.6 %
Equity	k€	100,566	139,067	– 27.7 %
Equity ratio	%	29.4 %	48.2%	– 18.8 %-points
Return on equity	%	– 28.2 %	21.6%	– 49.8 %-points
Employees[1]				
Employees[2]	heads	403	300	34.3 %
Revenues per capita[3]	k€	639	1,500	– 57.4 %
Phoenix Solar share[1]				
No-par bearer shares	units	7,372,700	7,372,700	0.0 %
Closing price	€	8.32	26.28	– 68.3%
Market capitalisation	k€	61,341	193.755	– 68.3%
Earnings per share				
– Basic	€	– 5.52	3.04	– 8.56 €
– Diluted	€	– 5.52	3.04	– 8.56 €

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

GROUP STRUCTURE

Locations and holdings as per 30/09/2011

Phoenix Solar AG
Sulzemoos, Germany

SUBSIDIARIES

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

OTHER HOLDINGS

100 %	**11 special purpose entities** (see Notes B.)
31.2 %	**Phönix SonnenFonds GmbH & Co. KG B1** Sulzemoos, Germany

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

After a very weak start to the year 2011, the photovoltaic sector expected prices stabilising in the second half of the year, a start to a recovery in the market in September and, given further reductions in the promotion of solar energy at the beginning of 2012, the year-end rally so typical of the industry. Confidence of demand in Germany staging a recovery were particularly high.

Unfortunately, none of these expectations has been fulfilled.

Germany as number one market was even faced with the possibility that it might lose it global leading position in 2011. In the first half-year, the market declined by around 56 percent. Furthermore, in the wake of the figures only recently released by the Federal Network Agency, the market slumped by almost 40 percent in the period from January to September compared with the year-earlier period. Another hurdle to contend with is the price curve, which indicates a steep downtrend in the second half of the year as well: Phases of relatively stable procurement and selling prices were followed by sudden and rapid price declines – all in all, an extremely difficult environment for a sound procurement policy.

What impact did these conditions have on the performance figures of Phoenix Solar AG? Tumbling prices, accompanied by sales volumes remaining virtually unchanged, resulted overall in significantly lower revenues with diminished gross profit. Although the third quarter brought a pleasing increase of 18.7 percent in revenues, which climbed from EUR 95.3 million to EUR 113.1 million over the previous year, and the sales volume, measured by megawatt peak, grew by as much as 40 percent, the result was nonetheless still burdened by the high level of inventory impairment. This led to negative earnings before interest and taxes (EBIT) of EUR 13.2 million.

Our challenge now is to respond swiftly to the new conditions in the market. Together with external consultants and all those responsible in the company, we are currently working intensively on optimising our business model.

We must become leaner to be able to withstand pressure from the cost front. To return to profitability again in 2012, we will need to concentrate on high-margin activities, selectively extend our value chain, and focus more strongly on international growth in Asia and the US.

With sunny greetings,

Dr. Andreas Hänel
(Chief Executive Officer)

PHOENIX SOLAR SHARE

STOCK MARKET ENVIRONMENT

Fears of an economic slowdown and the spreading of Europe's debt crisis sent the global stock markets plunging at the end of the third quarter. The DAX, EuroStoxx50, France's CAC40, the UK's FTSE and Spain's Ibex recorded the largest losses in a given quarter for nine years. Germany's leading index has plummeted by 25.4 percent in the past three months, thus shedding substantially more value than other European indices. Over the last quarter, US S&P-500 has lost 12 percent in the wake of anxiety about a new recession. It reported its worst quarter since the financial crisis came to a head in 2008.

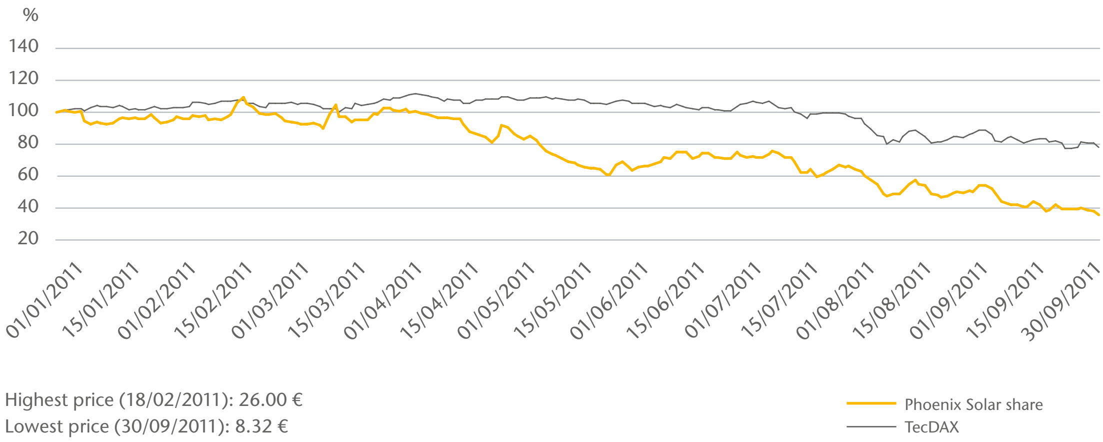
The TecDAX, which comprises the 30 largest technology companies below the DAX, emerged from the close of trading on 30 September at 663 points (31 December 2010: 851 points), which represents a decline of around 22 percent in the first nine months of 2011.

Since the start of the year, the German solar equities have lost a considerable amount of their value across the board in an extremely difficult market environment. Many shares sustained downturns of more than 50 percent.

SHARE PRICE PERFORMANCE

The share of Phoenix Solar AG came under enormous selling pressure in the third quarter and, having shed 51.8 percent, posted EUR 8.32 on 30 September. This steep decline in the share price was due to the slow development of business, problems intensifying in the solar industry with the first manufacturers filing for bankruptcy, and very poor market sentiment for solar equities in a negative stock market environment. There were major waves of selling both before and after notification of the Phoenix SonnenAktie® (share of Phoenix Solar AG) leaving the TecDAX. Having peaked at EUR 26.00 on 18 February, the share fell to its lowest point in the first nine months of EUR 8.32 on the last trading day of the third quarter.

Price performance of the Phoenix Solar share versus the TecDAX (01/01/ – 30/09/2011)



Highest price (18/02/2011): 26.00 €
Lowest price (30/09/2011): 8.32 €

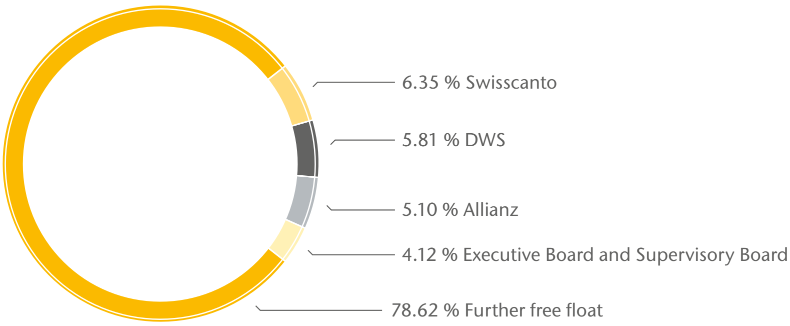
The market capitalisation of Phoenix Solar AG came to EUR 61.3 million on 30 September 2011 (31 December 2010: EUR 174.7 million). In terms of its trading volume, the share recorded an average daily turnover of 47,248 units in the third quarter, down from 62,360 units in the second and 56,437 in the first quarter.

The composition of the TecDAX was adjusted on 5 September following the regular review of the selection indices of the Frankfurt Stock Exchange by Deutsche Börse. Owing to share price losses and the resulting lower market capitalisation measured by free float, Phoenix Solar AG left the index effective 19 September.

SHAREHOLDER STRUCTURE

In the reporting period, there were a number of notifications submitted pursuant to Section 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. The shareholder structure as per 30 September 2011, and as known to Phoenix Solar AG, is shown below:

Shareholder structure as per 30/09/2011



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

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

INVESTOR RELATIONS

Important topics addressed as part of capital markets communication in the third quarter were the persistently weak development of business, excess capacity, tumbling prices and financing problems in the solar industry, as well as market prospects in the current and coming year.

In September, the company took part in the European Photovoltaic Solar Energy Conference and Exhibition (EU PVSEC) in Hamburg, the Barclays Capital Global Renewables and Clean Technology Conference in Zurich and the German Investment Conference of UniCredit in Munich. During the third quarter, Phoenix Solar AG also arranged meetings with a number of fund managers and buy-side analysts in San Francisco as part of a roadshow organised with Barclays Capital. The Executive Board presented the results of the first half year of 2011 by way of a telephone conference held with financial analysts and institutional investors on 11 August.

Current events are published in the financial calendar of the company on the website of Phoenix Solar AG under the “Investor Relations” heading.

ANALYST COVERAGE

A total of 17 banks and investment firms were regularly covering the Phoenix Solar share at the end of the third quarter of 2011. Twelve banks and research companies are headquartered in Germany and five outside Germany. An updated list of analysts' reviews is posted on our website under the "Investor Relations" heading.

Key data

		2010	Q1 2011	Q2 2011	Q3 2011	Q3 2010
Number of shares [1]	units	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700
Market capitalisation [1]	€	174,732,990	176,797,346	127,179,075	61,340,864	193,754,556
Closing price (Xetra)	€	23.70	23.98	17.25	8.32	26.28
Highest price	€	45.00	26.00	24.28	17.95	35.53
Lowest price	€	20.90	21.34	14.35	8.32	26.28
	units	13,357,952	3,611,987	3,928,676	3,118,506	2,819,405
Trading volume		392,402,712	84,402,577	72,261,465	38,884,920	88,144,747
Dividend	€	0.35	–	–	–	–
	€	3.44 [2]	– 1.76 [2]	– 1.11 [2]	– 5.52 [2]	0.31 [2]
Earnings per share	€	3.44 [3]	– 1.76 [3]	– 1.11 [3]	– 5.52 [3]	0.31 [3]

[1] At the end of the period [2] Basic [3] Diluted

Share fact sheet

International Securities Identification Number (ISIN)	DE000A0BVU93
Securities code number (Sec. code no.)	A0BVU9
Symbol	PS4
Class of shares	No-par value bearer shares
Number of shares as per 30/09/2011	7,372,700 units
Share capital as per 30/09/2011	€ 7,372,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	Xetra, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin, Düsseldorf, Hamburg, Hannover
Sector/sub-sector	Industrial Goods/Renewable Energies
Indices	CDAX, DAX International Mid 100, ÖkoDAX, Prime All Share, Technology All Share, various sector and sub-sector indices of Deutsche Börse AG
End of the financial year	31/12/
Accounting standards	IFRS
Start of stock market listing	18/11/2004
Designated Sponsor	HSBC Trinkaus & Burkhardt AG

INTERIM MANAGEMENT REPORT

TO THE INTERIM FINANCIAL STATEMENTS ACCORDING TO IFRS FOR THE REPORTING PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2011 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

SUMMARY AND OVERVIEW

The general demand weakness in the photovoltaic industry, which was already evident in the first half of 2011, continued in the third quarter, to a worse degree than we had expected. This development has been caused by the lingering uncertainties concerning future photovoltaic subsidies, as well as – specifically in the countries of southern Europe – financing shortfalls due to the debt crisis. Furthermore, the pronounced decline of prices for photovoltaic modules and systems continued unabated in the third quarter, mainly as a result of considerable excess supply and the influx of low-cost products from China.

Despite these persistently challenging market conditions, the Phoenix Solar Group generated revenues of EUR 113.1 million in the third quarter, reflecting an increase of 18.7 percent over the corresponding year-ago figure (EUR Q3/2010: 95.3 million). By contrast, the earnings before interest and taxes (EBIT) fell to EUR – 13.2 million (Q3/2010: EUR 4.3 million) and the consolidated profit fell to EUR – 19.0 million (Q3/2010: EUR 2.3 million).

On 11 October 2011, Phoenix Solar AG lowered its revenue and profit forecast for the full year 2011, by reason of the tough market conditions. The company now expects to generate revenues of between EUR 350 million and EUR 400 million and earnings before interest and taxes (EBIT) of between EUR – 42 million and EUR – 49 million. The main reason for the anticipated high level of losses is the need to write down the value of inventories, due to the unrelenting decline of solar module prices. In the fourth quarter, Phoenix does not expect the photovoltaic market to recover as much as previously expected, particularly in Germany; furthermore, a year-end rally is not to be expected at the present time.

1 BUSINESS ACTIVITY AND FRAMEWORK CONDITIONS

1.1 GROUP STRUCTURE, MANAGEMENT AND STRATEGY

Phoenix Solar is a leading European and globally active supplier of photovoltaic systems. The parent company Phoenix Solar AG has its headquarters in Sulzemoos, near Munich. The Group's global activities in the areas of finance, personnel, procurement and international logistics, engineering and innovation, quality assurance, IT and organisational development, marketing and corporate communication are centrally managed from this location. Furthermore, the Group's strategic and business development, as well as European sales, are coordinated by the headquarters in Sulzemoos. Besides the parent company, the Group comprises 11 subsidiaries and eight project companies, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

The company develops, plans, builds and operates large-scale photovoltaic power plants. It is also a specialised wholesaler of complete solar power systems, solar modules and accessories. Through its subsidiaries, Phoenix Solar AG is currently represented on four continents: Europe, Asia, Australia and North America. The Group's business in the growth regions of Southeast Asia has been coordinated from Singapore for the last five years. The Group has served the markets of the Middle East from Oman (Muscat) since 2009. In the second half of 2010, Phoenix Solar entered the U.S. market (San Ramon, California) and the Malaysian market (Kuala Lumpur).

Phoenix Solar AG operates in the two complementary business segments of Components & Systems and Power Plants. As a general rule, this division is also reflected in the subsidiaries, subject to particular areas of emphasis based on local market conditions. For example, the U.S. subsidiary has only been active in the project business to date.

In addition to supplying individual components for photovoltaic plants, the Components & Systems segment also develops tailored system solutions, provides planning support and offers logistical and other services (such as training and marketing support, for example). The customers of this operating segment include resellers and installation companies such as electrical installation companies, retailers and wholesalers of electrical products, heating and sanitation companies, roofers and solar power specialists.

In its Power Plants segment, Phoenix Solar handles the necessary planning work and the turnkey construction of photovoltaic systems up to the multi-megawatt range, including the subsequent operational management and maintenance. For sales and marketing purposes, the Power Plants segment is sub-divided into the divisions of solar field systems and roof-top systems. The roof-top systems sales department acquires orders as a general contractor, through tendering procedures, for example. Customers include private individuals, retail companies, industrial companies and trade companies. In its solar-field sales department, Phoenix Solar mainly serves institutional investors, which are either seeking to set up investment fund models or to hold large-scale photovoltaic plants in their own portfolio as direct investors.

The overriding goal of the Phoenix Solar Group is to increase the company's value on a systematic and sustainable basis. For the purpose of managing, overseeing and monitoring the company's business, the Group employs a management system based on key performance indicators, accompanied by an integrated controlling concept. The key indicators applied for the purpose of managing the business of the Phoenix Solar Group are EBIT and the ratio of EBIT to revenues (EBIT margin). Other managerial indicators applied are Return on Capital Employed (ROCE) and the Working Capital Ratio (ratio of working capital to revenues).

The Phoenix Solar Group pursues the strategic objective of securing its position in Germany as a leading supplier of photovoltaic systems technology, one that is not bound to specific manufacturers, while also continually extending its international position. Phoenix Solar strives to become more independent of state subsidies, so as to counter the risks associated with the existing dependency on such subsidies. The Group intends to achieve that goal primarily by means of cost reductions and innovations in the planning and construction of systems, through the use of new technologies and by way of increased internationalisation. The Group seeks to grow its business at a rate in excess of the long-term average growth of the global photovoltaic market.

1.2 GENERAL ECONOMIC CONDITIONS

The general economic environment in which the Phoenix Solar Group conducts its business continued to exhibit a positive development in the third quarter. Concerning the further development of the global economy, however, there was still great uncertainty. In the euro zone, the trend of divergent economic conditions in the different member states continued. Whereas economic growth in the southern European countries was still negative or below average, due to the lingering or newly emerging debt problems, Germany continued to serve as the economic engine of Europe. Based on preliminary estimates, German gross domestic product (GDP) expanded by 0.4 percent in the third quarter of 2011, which would be 0.3 percentage points higher than the growth experienced in the second quarter. On the domestic side, the German economy was particularly favoured by robust consumer spending again. However, the Indicator of Economic Sentiment published by the European Centre for Economic Research (ZEW) declined again, pointing to the possibility of an economic slowdown on the horizon.

In the United States, the economic recovery continued to be sluggish, as domestic demand was hampered by the stagnant jobs market and moribund housing market. Furthermore, the high level of government debt leaves little or no room for economic stimulus measures.

The emerging-market countries of China, Brazil and India registered high growth rates again in the third quarter, but that trend was also accompanied by higher rates of inflation. Consequently, there have been growing signals to the effect that policy makers, particularly in China and India, may be willing to accept weaker economic growth in the future as the price for greater price stability.

1.3 DEVELOPMENTS IN THE PHOTOVOLTAIC SECTOR

The photovoltaic sector was burdened by extremely large excess supply in the third quarter, which provoked a further sharp decline in the prices of photovoltaic modules and systems. According to the specialised market research and analysis firm Solarbuzz, factory prices for solar modules fell by some 33 percentage points in the period from July to September 2011. As in the second quarter, second-tier and third-tier Chinese module producers led the group of low-cost vendors in the third quarter.

According to Solarbuzz, global demand rose by only one percentage point in the third quarter. Despite the fact that subsidy conditions and photovoltaic plant yields were still attractive in the key markets, demand was held back by a number of factors, including the high level of uncertainty concerning future photovoltaic subsidies, financing shortfalls resulting from the European debt crisis and deflationary effects, meaning the expectation that prices will continue to fall in the future. The persistent, extraordinarily pronounced price erosion intensified consolidation pressure within the photovoltaic industry, leading to competition distortions as a result of industrial policies. Thus, reports of production plant shut-downs, restructuring programs and bankruptcies among U.S. and European manufacturers became increasingly widespread during the course of the third quarter.

Amid this challenging competition environment, the photovoltaic industry substantially increased its contribution to energy supplies in the core market of Germany. In September, the National Association of Energy and Water Utilities (BDEW) reported that the percentage of Germany's total electricity generated from photovoltaic sources has nearly doubled in the current year, based on preliminary estimates, both as a result of the strong increase in installed capacity in the past year and also thanks to sunny weather in the spring. In the first half of 2011, photovoltaic plants supplied 3.5 percent of the total electricity generated in Germany, as compared to 2.0 percent in the preceding year.

2 SUMMARY OF BUSINESS DEVELOPMENTS IN THE REPORTING PERIOD

2.1 GENERAL DEVELOPMENTS

PROCUREMENT MARKET

The procurement strategy of the Phoenix Solar Group is geared to keeping a balanced product portfolio in stock, so as to offer a selected range of different module technologies. The individual products are meant to be used for both the Power Plants segment and the Components & Systems segment, as needed. By this means, the company can optimise its procurement volumes and manage its sales opportunities in the most flexible manner possible.

Amid an unrelentingly tough market environment, the procurement of solar modules was influenced by further price reductions in the third quarter, both for crystalline modules and for thin-film modules. By re-negotiating purchasing quantities and payment terms with suppliers, however, Phoenix Solar was able to offset a portion of the price reductions. The company placed very few new orders for inverters because it had sufficient stocks on hand.

In consideration of the still uncertain future outlook for the photovoltaic market, Phoenix Solar plans to stick with its conservative procurement strategy and place new orders mainly on a project-specific basis.

SALES MARKET GERMANY

In Germany, demand for photovoltaic systems increased, but still lagged behind expectations. Given the fact that subsidies were not cut as of 1 July, in accordance with the new version of the Renewable Energies Act (EEG) enacted in the spring, new installed capacity in the months of January to September 2011 totalled only about 3,400 MW, according to the German Federal Networks Agency. Total new capacity of 5,200 MWp was added in the period from 1 October 2010 to 30 September 2011, which has been established as the measurement period for reducing feed-in remuneration tariffs as of 1 January 2012. On 27 October 2011, therefore, the German Federal Networks Agency announced that the feed-in tariff for PV plants that will come on line on or after 1 January 2012 will be 15 percent less than the current feed-in tariff. However, the new installed capacity of 5,200 MW is considerably lower than the figure of 7,800 MW that had been reported for the comparison period of October 2009 to September 2010.

SALES MARKET INTERNATIONAL

In the third quarter of 2011, most European photovoltaic markets were characterised by subdued demand, which resulted from deflationary effects and financing shortfalls. Confronted with continually falling prices, investors, wholesalers and installers naturally expected prices to continue falling and therefore delayed their orders as long as possible. In addition, the repercussions of the debt crisis led to financing shortfalls for photovoltaic plants in the southern European markets, particularly in Greece.

As a positive exception, the Italian market recovered during the course of the third quarter, following a restrained development in the month of July. According to preliminary estimates, large-scale photovoltaic plants with a total capacity of 1.1 GWp were connected to the Italian power grid in the third quarter. According to the Italian Economics and Finance Ministry (GSE), which is responsible for renewable energies in that country, photovoltaic plants with a total capacity of 6.5 GWp were connected to the power grid in the period from January to August 2011. If these estimates prove to be accurate, Italy will have replaced Germany as the world's biggest photovoltaic market. On the other hand, past experience has shown in many instances, such as the market developments in Spain or the Czech Republic, that overheated markets are often virtually choked off by abrupt, unscheduled subsidy reductions, and that represents a potential future risk for the currently booming Italian market.

The Greek Environment and Energy Ministry has announced plans to install photovoltaic capacities that go beyond the former expansion target of 2.2 GWp by the year 2020. Those plans are supposed to be implemented with the aid of foreign investors and by making use of certain mechanisms under the European Renewable Energies Directive. Among other provisions, this Directive provides that EU member states can meet their renewable energy targets in part by way of joint projects or statistical transfers. Such projects can also be financed with funds from the European Structural Fund or from the European Investment Bank (EIB). Therefore, the German Economics Ministry has initiated a review to determine the extent to which such projects can be supported in Greece. It remains to be seen, however, if those plans come to fruition and if so, what long-term effects they will have on the German photovoltaic market.

Apart from Italy, the world's fastest-growing photovoltaic markets were China and the United States. In China, the National Development and Reform Commission (NDRC) has announced the introduction of a nationwide feed-in tariff equivalent to 12.6 euro-cents per kilowatt-hour for roof-top and solar field systems approved by the NDRC prior to 1 July 2011 and completed by the end of 2011. A feed-in tariff of about 11 euro-cents per kilowatt-hour was set for plants approved after 1 July and expected to be completed in 2012. NDRC has said that further tariff reductions are possible, depending on future reductions in system prices. The new subsidy, which will be granted in addition to those under existing regional subsidy programs, will be financed from a Renewable Energies Development Fund. Based on preliminary market estimates, it can be expected that the Chinese photovoltaic market will expand at a much faster rate than previously assumed, thanks to the new subsidy program. Local Chinese vendors are expected to be the main beneficiaries of this growth, however.

The U.S. market also continued to exhibit very positive growth in the third quarter. The main factors driving this growth were the sharp decline in prices and the anticipatory effects related to the upcoming expiration of the "cash grant" at the end of 2011. The cash grant has been offered as an alternative to the Investment Tax Credit (ITC), which will remain in effect until 2016, since the beginning of 2010. In California, the photovoltaic market has been further stimulated by the fact that the state's renewable energy target was raised in April to 33 percent by the year 2020.

2.2 IMPORTANT EVENTS IN THE REPORTING PERIOD

SYNDICATED LOAN AGREEMENT EXTENDED AHEAD OF SCHEDULE

On 1 July 2011, Phoenix Solar announced the extension of the EUR 150 million syndicated loan agreement that had originally been concluded in November 2008. The loan, which serves to finance the working capital of the Phoenix Solar Group, as well as necessary guarantees and letters of credit, will now remain in effect until November 2012.

CONSTRUCTION OF A SOLAR POWER FARM IN THE LAKE CONSTANCE REGION

In July 2011, the Singen-based company solarcomplex AG hired Phoenix Solar as the general contractor to build a solar power farm with a peak capacity of about 4.7 megawatts in Bodman-Ludwigshafen. The company solarcomplex AG is a regional utility specialising in renewable energies, which builds energy plants in the Lake Constance region. The project was completed and accepted by the customer in mid-September.

BIGGEST INTERNATIONAL ORDER TO DATE

On 19 July 2011, the Paris-based energy utility Akuo Energy hired Phoenix Solar as the general contractor to build two solar power plants in France. Each of these two solar power farms will have a peak capacity of 12 MWp; upon completion, which is planned for the end of 2011, they will generate about 36 million kilowatt-hours of environmentally friendly electricity per year. This is the biggest international order to date in the history of Phoenix Solar.

FURTHER PROGRESS IN THE COMPANY'S INTERNATIONALISATION CAMPAIGN

Having successfully entered the Thai market in mid-June 2011, our subsidiary Phoenix Solar Pte Ltd, Singapore, announced on 29 July that it had entered into two contracts in India, a country of immense market potential. Under these contracts, the company will build two solar power plants, each with a peak capacity of 1 MWp, in the Indian states of Tamil Nadu and Gujarat. Both projects are supposed to be connected to the power grid by the end of 2011.

SEVERAL NEW ORDERS FROM ITALY

On 12 September 2011, we announced that our Italian subsidiary Phoenix Solar S.r.l. had received several orders for the delivery of solar modules to a total of three solar power plants. These orders are attributed to the Component & Systems segment. Furthermore, Phoenix Solar S.r.l. was awarded a contract to supply a roof-top project with a peak capacity of 227 kWp, which is supposed to be connected to the power grid at the end of 2011.

3 RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL POSITION

3.1 RESULTS OF OPERATIONS

The general demand weakness in the photovoltaic industry, which was already evident in the first half of 2011, continued in the third quarter. This weakness was mainly caused by the lingering uncertainties concerning future photovoltaic subsidies, as well as – specifically in the countries of Southern Europe – financing shortfalls resulting from the debt crisis. In addition, the sharp decline in prices for photovoltaic modules and systems continued unabated, mainly as a result of considerable excess supply and low-cost products from China.

Despite these persistently challenging market conditions, the third-quarter revenues of the Phoenix Solar Group rose by 18.7 percent over the year-ago figure (Q3/2010: EUR 95.3 million) to reach EUR 113.1 million. By contrast, the earnings before interest and taxes (EBIT) fell to EUR – 13.2 million (Q3/2010: EUR 4.3 million) and the consolidated profit fell to EUR – 19.0 million (Q3/2010: EUR 2.3 million).

3.2 ANALYSIS OF REVENUES

Domestic revenues accounted for 28.4 percent (Q3/2010: 44.5 percent) and international revenues accounted for 71.6 percent (Q3/2010: 55.5 percent) of the Group's total revenues in the third quarter. The international subsidiaries contributed 66.8 percent of the Group's total revenues in the third quarter (Q3/2010: 30.0 percent).

The Components & Systems segment generated revenues of EUR 65.8 million in the third quarter of 2011 (Q3/2010: EUR 53.8 million), reflecting a gain of 22.3 percent over the corresponding year-ago figure. The Power Plants segment generated revenues of EUR 47.3 million (Q3/2010: EUR 41.5 million), reflecting a gain of 14.0 percent over the corresponding year-ago figure. Accordingly, the Components & Systems segment contributed 58.2 percent (Q3/2010: 56.5 percent) and the Power Plants segment contributed 41.8 percent (Q3/2010: 43.5 percent) of the Group's total revenues in the third quarter.

At EUR 253.9 million, the total revenues generated by the Phoenix Solar Group in the first nine months of the current financial year were roughly 44.7 percent less than the corresponding year-ago figure (Q1–Q3/2010: EUR 459.3 million). The Components & Systems segment generated revenues of EUR 155.0 million in the first nine months of 2011, reflecting a decrease of 42.2 percent from the corresponding year-ago figure (Q1–Q3/2010: EUR 268.2 million). The Power Plants segment generated revenues of EUR 98.9 million, reflecting a decrease of 48.2 percent from the corresponding year-ago figure (Q1–Q3/2010: EUR 191.1 million). International revenues (including projects executed by the parent company in foreign countries) represented 58.9 percent of the Group's total revenues in the first nine months of 2011 (Q1–Q3/2010: 21.2 percent) and international subsidiaries (excluding projects executed by the parent company in foreign countries) contributed 40.7 percent of the Group's total revenues (Q1–Q3/2010: 12.6 percent).

3.3 SITUATION OF ORDERS

As of 30 September 2011, orders on hand amounted to EUR 237.2 million (30 September 2010: EUR 271.2 million), reflecting a decrease of EUR 34.0 million or 12.5 percent from the corresponding year-ago figure. Orders on hand for the Components & Systems segment fell to EUR 39.2 million (30 September 2010: EUR 64.8 million) and those for the Power Plants segment declined slightly to EUR 198.0 million (30 September 2010: EUR 206.4 million).

3.4 DEVELOPMENT OF KEY ITEMS IN THE INCOME STATEMENT

CHANGES IN INVENTORY

The changes in inventory in the amount of EUR 7.3 million (Q1–Q3/2010: EUR 9.1 million) reflect the increases or decreases in the volume of orders in progress.

OTHER OPERATING INCOME

The other operating income of EUR 6.5 million for the first nine months of 2011 (Q1–Q3/2010: EUR 2.3 million) was mainly composed of electricity income (EUR 2.6 million), income from the adjustment of invoice-related estimates (EUR 1.3 million) and income from the reduction of general value adjustments (EUR 1.1 million).

PURCHASED GOODS AND SERVICES/GROSS PROFIT

At EUR 117.9 million, the cost of purchased goods and services in the third quarter of 2011 was 33.2 percent higher than the corresponding year-ago figure (Q3/2010: 88.5 million).

For the first nine months of the current financial year, however, the cost of purchased goods and services amounted to EUR 261.3 million, reflecting a decrease of 35.2 percent from the corresponding year-ago figure (Q1-Q3/2010: EUR 403.3 million), which resulted from the lower sales quantities. In percentage terms, however, the cost of purchased goods and services did not decline as much as revenues, which were 44.7 percent less than the corresponding year-ago figure. For that reason, Phoenix Solar incurred a negative gross profit for the first nine months of 2011. The main reason for this development was the rapid price erosion, especially for solar modules, as a result of which products could only be sold at a loss in many cases.

PERSONNEL EXPENSES

As of 30 September 2011, the Phoenix Solar Group had a total of 433 employees (including members of the Executive Board and temporary workers); of that number, 396 were permanent employees.

By reason of the higher number of employees compared to the year-ago period, the personnel expenses of EUR 5.8 million were 7.4 percent higher than the corresponding figure for the third quarter of last year (Q3/2010: EUR 5.4 million). At EUR 20.1 million, the personnel expenses for the first nine months of 2011 were 5.8 percent higher than the corresponding year-ago figure (Q1–Q3/2010: EUR 19.0 million). By reason of the lower revenues generated in the first nine months of 2011, the ratio of personnel expenses to revenues rose to 7.9 percent (Q1–Q3/2010: 4.1 percent).

EARNINGS BEFORE INTEREST AND TAXES (EBIT)

Due to the substantially higher cost of purchased goods and services and the higher amount of inventory value adjustments, Phoenix Solar generated an EBIT of EUR –13.2 million in the third quarter of 2011, which was significantly less than the corresponding year-ago figure (Q3/2010: EUR 4.3 million). Reflecting an analogous decrease, the EBIT generated in the first nine months of 2011 amounted to EUR –39.5 million (Q1–Q3/2010: EUR 31.2 million). Accordingly, the EBIT margin, which is defined as the ratio of EBIT to revenues, came to –15.6 percent (Q1–Q3/2010: 6.8 percent).

FINANCIAL RESULT

The financial result for the first nine months of the current year amounted to EUR –2.7 million (Q1–Q3/2010: EUR –1.2 million). At EUR 0.3 million, financial income was EUR 0.1 million higher than the corresponding year-ago figure (Q1–Q3/2010: EUR 0.2 million), while the financial expenses of EUR 3.0 million, which consisted mainly of interest on the short-term credit facility, were EUR 1.6 million higher than the corresponding year-ago figure (Q1–Q3/2010: EUR 1.4 million).

TAX RATE

As of the reporting date, the Group's tax rate, defined as the ratio of tax expenses to the consolidated profit or loss before taxes, was 5.0 percent (PY: 29.3 percent). The considerable reduction in the tax rate compared to the year-ago period resulted mainly from the incorporation of tax audit findings and from the decision initially not to recognize deferred tax assets in respect of tax losses in the amount of EUR 15,647 thousand (PY: EUR 0 thousand), which would be applied against taxable profits in the years 2011 to 2014, because the Group is currently undergoing a strategic reorientation and therefore the previous business plans are being revised. The management currently anticipates that it should be possible to recognize these deferred tax assets in the fourth quarter of 2011.

CONSOLIDATED PROFIT/LOSS

By reason of the developments described above, the Phoenix Solar Group generated a consolidated loss of EUR –19.0 million in the third quarter of 2011 (Q3/2010: EUR 2.3 million). Accordingly, the consolidated loss for the first nine months amounted to EUR –40.1 million (Q1–Q3/2010: EUR 21.0 million). Based on 7.4 million average shares outstanding, the basic earnings per share came to EUR –5.52 (Q1–Q3/2010: EUR 3.04). Because no significant diluting factors were in effect as of 30 September 2011, the diluted earnings per share were only slightly different from the basic earnings per share.

3.5 DEVELOPMENT OF THE BUSINESS SEGMENTS

COMPONENTS & SYSTEMS (DOMESTIC AND INTERNATIONAL)

The photovoltaic industry overall was affected by massive excess supply in the third quarter of 2011, which led to substantial price erosion, both for photovoltaic modules and photovoltaic systems. The excess supply was exacerbated by a rather subdued increase in demand. Nonetheless, the photovoltaic markets of France, Germany and Greece exhibited a clear upward trend, which was inhibited, however, by country-specific barriers to growth of varying degrees of intensity, depending on the country.

Critical financing shortfalls prevented the Greek market, in particular, from achieving its full demand potential. By contrast, the currently positive outlook for the French market supports the expectation of stable growth in that country through the end of the current year. However, the growth of installed capacity in the French market was not accompanied by higher revenues in all cases, due to the prevailing price pressures.

Amid this persistently challenging market environment, the Components & Systems segment generated revenues of EUR 155.0 million in the first nine months of 2011, reflecting a 42.2 percent increase over the corresponding year-ago figure (Q1–Q3/2010 EUR 268.2 million). Of that total, EUR 91.8 million (Q1–Q3/2010: EUR 213.1 million) or 59.2 percent (Q1–Q3/2010: 79.5 percent) was generated in Germany (Q1–Q3/2010: EUR 55.1 million) and EUR 63.2 million or 40.8 percent was generated in the international markets (Q1–Q3/2010: 20.5 percent).

As of 30 September 2011, orders on hand for the Components & Systems segment amounted to EUR 39.2 million, reflecting a decrease of 39.5 percent from the corresponding year-ago figure (30 September 2010: EUR 64.8 million), reflecting the continued influence of unstable prices. Domestic orders accounted for EUR 15.6 million (30 September 2010: EUR 42.4 million) and international orders accounted for EUR 23.6 million (30 September 2010: EUR 22.4 million) of segment orders on hand.

POWER PLANTS (DOMESTIC AND INTERNATIONAL)
Again in the third quarter, the performance of the Power Plants segment was influenced by strong international activity. In addition to the two projects involving a total capacity of 13.6 MWp that are currently being built in France, the Group acquired orders for two other projects involving a total capacity of 24 MWp in the third quarter. In the year to date, Phoenix Solar has acquired orders worth considerably more than EUR 100 million in the French market.

The Group's project development activities were likewise successful in Bulgaria, where the first project has been approved and company shares have been acquired. Furthermore, the installed capacity of the Bulgarian project has been expanded from the originally planned 20 MWp to 50 MWp. In Greece, the Group's many years of project development activity have come to fruition, as the first projects in that country are almost ready for construction. Nonetheless, the repercussions of the Greek financial crisis need to be carefully monitored.

Beyond Europe, the Group is currently in the process of building two projects in Thailand (total 15.9 MWp) and Saudi Arabia (3.5 MWp). Furthermore, Phoenix Solar has intensified its project acquisition activities in the two above-mentioned markets and in other international markets outside of Europe. By way of example, the company has submitted a bid for a 100 MWp project in the Arab world, representing the biggest project planning endeavour in the history of the Phoenix Solar Group.

The Power Plants segment generated revenues of EUR 98.9 million in the period from January to September 2011, reflecting an decrease of 48.2 percent from the corresponding year-ago figure (Q1–Q3/2010: EUR 191.1 million). Domestic business accounted for EUR 12.5 million or 12.6 percent (Q1–Q3/2010: EUR 148.7 million or 77.8 percent) and international business accounted for EUR 86.4 million or 87.4 percent (Q1–Q3/2010: EUR 42.4 million or 22.2 percent) of total segment revenues. In line with the internationalisation strategy of the Phoenix Solar Group, the amount of revenues generated by the Power Plants segment in international markets was substantially higher, by 103.7 percent, than the corresponding figure for the first nine months of 2010.

As of 30 September 2011, the Power Plants segment had total orders on hand (including orders in progress) worth EUR 198.0 million (30 September 2010: EUR 206.4 million). Domestic orders amounted to EUR 48.5 million (30 September 2010: EUR 112.7 million) and international orders amounted to EUR 149.5 million (30 September 2010: EUR 93.7 million).

3.6 FINANCIAL POSITION AND CASH FLOWS

STRUCTURE OF ASSETS AND CAPITAL

At EUR 341.9 million, the total assets of the Phoenix Solar Group as of 30 September 2011 were EUR 28.6 million or 9.1 percent higher than the corresponding figure at year-end 2010 (31 December 2010: EUR 313.3 million).

At EUR 12.5 million, non-current assets were EUR 1.6 million higher than the corresponding figure at year-end 2010 (31 December 2010: EUR 10.9 million).

At EUR 329.5 million, current assets were EUR 27.1 million higher than the corresponding figure at year-end 2010 (31 December 2010: EUR 302.4 million). This increase resulted mainly from the fact that receivables due from customers (receivables under long-term construction contracts and trade receivables) rose by EUR 8.9 million to EUR 122.3 million (31 December 2010: EUR 113.4 million). In addition, advance payments rose by EUR 7.0 million to EUR 10.3 million (31 December 2010: EUR 3.3 million). Cash and cash equivalents rose by EUR 7.1 million to EUR 16.7 million (31 December 2010: EUR 9.6 million) and inventories rose by EUR 5.8 million to EUR 155.3 million (31 December 2010: EUR 149.5 million).

At EUR 100.6 million, the Group's equity was EUR 41.9 million less than the corresponding figure at year-end 2010 (31 December 2010: EUR 142.4 million), mainly due to the consolidated loss for the period in the amount of EUR 40.1 million. Dividing that figure by the currently higher level of total assets yields an equity ratio of 29.4 percent (31 December 2010: 45.5 percent).

By contrast, debt capital increased by EUR 70.5 million to EUR 241.4 million (31 December 2010: EUR 170.9 million), mainly due to the fact that current financial liabilities rose by EUR 37.5 million to EUR 90.2 million (31 December 2010: EUR 52.6 million). In addition, payables due to suppliers (payables under long-term construction contracts and trade payables) rose by EUR 20.1 million to EUR 104.9 million (31 December 2010: EUR 84.8 million). Other liabilities (financial and non-financial) rose by EUR 12.6 million to EUR 32.7 million (31 December 2010: EUR 20.1 million).

CASH FLOW FROM OPERATING ACTIVITIES

In the first nine months of 2011, the cash flow from operating activities amounted to EUR –26.0 million (Q1–Q3/2010: EUR –80.3 million). That figure included interest paid and income taxes paid in the amount of EUR 5.0 million. The change from the corresponding figure for the first nine months of 2010 resulted particularly from changes in working capital, as the smaller increase in inventories meant that EUR 49 million less working capital was tied up in the reporting period.

CASH FLOW FROM INVESTING ACTIVITIES

The cash flow from investing activities was nearly unchanged at EUR –2.1 million (Q1–Q3/2010: EUR –2.0 million). That figure was mainly composed of the customary purchases of property, plant and equipment, but it also included investments in intangible assets, such as licenses and capitalisable costs, for example, in the time until 1 July 2011. The introduction of a new company-specific ERP (ERP = Enterprise Resource Planning) solution that was initiated in financial year 2009 was placed into productive operation as of 1 July 2011 and therefore no further significant investment expenses were incurred for that purpose in the third quarter.

CASH FLOW FROM FINANCING ACTIVITIES

In the first nine months of 2011, the cash flow from financing activities amounted to EUR 35.2 million (Q1–Q3/2010: EUR 69.8 million). It was composed of the negative cash flow for the dividend paid to shareholders of Phoenix Solar AG in the amount of EUR 2.6 million, the cash inflows from the borrowing of financial liabilities in the amount of EUR 37.5 million and interest collected in the amount of EUR 0.3 million.

4 EVENTS AFTER THE REPORTING DATE

PHOENIX SOLAR OBTAINS PROJECT RIGHTS FOR A SOLAR POWER FARM IN BULGARIA

In the wake of a successful project development that commenced already in 2009, Phoenix Solar AG secured the project rights for a solar power farm with a peak capacity of 50 MWp in Kazanlak, in the interior of Bulgaria, on 4 October 2011. Because all necessary permits for building the project have been obtained, Phoenix Solar is currently conducting sale negotiations with several investors.

ADDITIONAL PROJECT IN GREECE

On 17 October 2011, we announced that our Greek subsidiary Phoenix Solar E.P.E. was awarded the contract to build a solar power farm with a peak capacity of 1.1 MWp in Central Macedonia. In this project, Phoenix Solar is responsible for both planning and building the solar power plant and for supplying the necessary solar modules, inverters and components. The plant, which was connected to the power grid at the end of October, will supply environmentally friendly electricity to more than 450 average Greek households.

CONSTRUCTION OF TWO SOLAR POWER PLANTS IN NEU-ULM

In October, the public utility Stadtwerke Ulm/Neu-Ulm contracted Phoenix Solar AG to build two solar power plants with a combined peak capacity of 477 kilowatts. The plant to be installed on the roofs of the new multi-purpose municipal facility “ratiopharm Arena Ulm/Neu-Ulm” will cover a total area of 8,700 square meters. Construction commenced in October and the new plants should be connected to the power grid by the end of this year.

FINANCING NEGOTIATIONS WITH LENDERS AND GUARANTORS

As a result of the current situation of operating results, Phoenix Solar AG will not be able to fulfil some of the financial ratios stipulated as covenants in the syndicated loan agreement in effect until November 2012. Therefore, Phoenix Solar filed an application with the banks, asking them to waive the exercise of their termination rights pending the presentation of a reorganisation report in mid-December 2011. This application was granted on 9 November 2011.

5 REPORT ON OPPORTUNITIES AND RISKS

As an internationally active company, the Phoenix Solar Group is exposed to a considerable number of opportunities and risks. The opportunities associated with the Group's future development are presented in the Annual Report 2010, along with detailed information on the risk portfolio of Phoenix Solar. Based on the current status of information, no significant changes have occurred in that respect since the Annual Report 2010, beyond those explicitly mentioned in the following report.

5.1 POLICY ON OPPORTUNITIES AND RISKS

The goal of our policy on opportunities and risks is to assure the continued operation of the Phoenix Solar Group as a going concern and to systematically and sustainably increase the company's value. In accordance with these basic principles, business decisions are always made only on the basis of a detailed analysis and assessment of the associated risks. Because all business activity necessarily entails opportunities and risks, the Group's risk strategy covers both elements. In the areas of our core competence, therefore, we consciously take on manageable, assessable risks when the income to be generated by assuming such risks is appropriate. The Group avoids risks in all other areas, as a basic principle.

5.2 RISK AND OPPORTUNITY MANAGEMENT SYSTEM

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

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

5.3 SIGNIFICANT RISK AREAS

Aside from the specific risks and opportunities described in detail in the Annual Report 2010, to which express reference is made at this point, the Group is exposed to the risks and opportunities described below, based on the current status of information.

POLITICAL FACTORS
Also in the current year 2011, the condition and development of national photovoltaic markets are promoted or impeded to varying degrees by the laws and regulations in force. In the case of laws designed to create long-term economies of scale, such as the German Renewable Energies Act, every reduction in feed-in remuneration rates that cannot be offset by lower-cost procurement prices lowers the achievable return of new photovoltaic plants, which reduces the attractiveness of such plants for potential buyers. Unannounced, radical changes in the legislative framework, which are becoming increasingly frequent, undermine the stability of promised feed-in remuneration and could inhibit further market growth or even cause markets to contract, which would endanger the continued operation of the company as a going concern. In order to mitigate the risks associated with dependencies on individual markets, Phoenix Solar AG systematically pursues a strategy of internationalisation. By that means, the company also counters the risks associated with the debate concerning the future development of feed-in tariffs – especially under the German Renewable Energies Act – in the markets of Germany, France and Italy, which are currently the most important for Phoenix Solar AG.

MARKET, COMPETITION AND EXTERNAL FACTORS

The on-going debates concerning the future role of photovoltaic technology in a few key European markets such as Italy and Germany are provoking uncertainty among potential investors. In these markets, recent policies have reduced the incentives to invest in photovoltaic plants, leading to lower revenues, especially in Germany in the current year to date. The appreciable restraint on the part of banks, especially in Italy but also in other countries of southern Europe, to extend project finance loans to potential investors is also inhibiting the expansion of business activities. The resulting delays in project implementation or the absence of new project deals could therefore endanger the achievement of growth targets in that market. Another possibility that cannot be ruled out is the inability to sell completely developed and constructed projects due to a lack of financing, which would have an adverse effect on the company's revenues and operating results.

In anticipation of lower prices, especially for modules and inverters, Phoenix Solar AG has estimated the development of selling prices, based on the available knowledge at the time of preparing the financial statements, and adjusted the value of its existing inventories downward, in connection with the preparation of the quarterly financial statements. If the future development of market conditions would be influenced by factors that were not yet known at the time of charging such inventory value adjustments, it may be necessary to charge additional value adjustments in the future, which would have an adverse effect on the operating results of the Group.

If lengthier delays would occur in the process of selling large photovoltaic plants, leading to delayed cash flows, that could pose a risk to the liquidity management efforts of Phoenix Solar AG. The Group counters such risks by means of active working capital management.

PROCUREMENT

In order to ensure access to a secure supply of modules, Phoenix Solar has for years employed a long-term supply agreement with a module supplier, the term of which expires at the end of 2012. By reason of the current situation, some contractually stipulated procurement quantities were transferred from 2011 to financial year 2012. There is a risk that these obligatory purchases may have to be effected at higher-than-market prices in 2012 and therefore the Group would not be able to resell the components above its procurement cost, which would have a serious adverse effect on the Group's operating results, cash flows and financial position.

In past years, the Group has always been able to successfully negotiate quantity and market price adjustments within the framework of this master agreement. The management anticipates that the current negotiations will likewise lead to successful quantity and market price adjustments.

GROUP FINANCING

To secure its medium-term financing needs, the Group entered into a syndicated loan agreement with a term of three years in financial year 2008, for the purpose of financing the working capital of the Phoenix Solar Group, as well as necessary guarantees and letters of credit. At the end of the second quarter of 2011, the term of the existing loan agreement was extended until November 2012. The maximum available amount under the syndicated loan agreement is EUR 150 million. The covenants stipulated in the syndicated loan agreement (particularly EBIT) were established on the basis of the budget for financial year 2011 that had been presented by Phoenix Solar. Due to the fact that the market did not recover in the third and fourth quarter of 2011 as much as had been expected, the Group will not be able to achieve the budget submitted to the syndicate banks and therefore will also not be able to fulfil the stipulated covenants. The application for waiver of termination filed by the company was approved by all the syndicate banks on 9 November 2011. The waiver is conditioned on the presentation of a reorganisation report by the end of December 2011 and on the granting of a moratorium by the company's other bilateral lenders, guarantors and trade credit insurers, which must be demonstrated by 16 November 2011. There is a risk that the aforementioned parties may not grant a moratorium within the allowed time period, which would constitute grounds for termination of the syndicated loan agreement. There is also a risk that the credit facility will not be maintained, or not to the full extent, after presentation of the reorganisation report.

Because the company, based on the latest liquidity budgets, will be able to meet its principal and interest obligations on time throughout the term of the financing agreement, despite the delayed development of the Group's business potential, the management considers it highly probable that the credit facility will be maintained after presentation of the reorganisation report and that the moratorium will be granted.

BUSINESS MODEL

The rapid changes in the market environment and the accompanying dramatic decline in the prices of solar modules and systems will lead to substantially lower revenues and earnings, even if unit sales volumes remain unchanged. Because it cannot be expected that selling prices will recover even in the subsequent years, the company must respond to this development by optimising its business model. To that end, Phoenix Solar AG will need to focus on high-margin business segments in which the Group is already active or it will need to initiate an expansion into other business segments. With the support of a management consulting firm, the Executive Board is currently exploring ways to optimise the company's business model, so that it will be optimally configured to meet the challenges of the future. In this connection, the Group will also scrutinise its cost structure in the areas of "other operating expenses" and "personnel".

The company intends to have completed the optimisation of its business model by the end of the current financial year. The management anticipates that the profitability of the Phoenix Solar Group can be restored on that basis.

INTERNATIONAL EXPANSION

Through its worldwide network of subsidiaries, the Phoenix Solar Group takes advantage of opportunities to establish a foothold in international markets, in order to achieve its growth goals by generating a higher proportion of its business in international markets. The further expansion of the Phoenix Solar Group, particularly including project development and the construction of photovoltaic power plants in foreign countries, entails considerably higher risks than those associated with the Group's business in Germany. Such risks relate primarily to development expenses and times and to the completion of photovoltaic power plants. Especially in the case of increased activities in new markets, therefore, project delays and cost overruns compared to the original, deliberately conservative plans cannot be ruled out.

5.4 GENERAL ASSESSMENT OF THE GROUP'S RISK SITUATION

The general risk situation of the Phoenix Solar Group has worsened since the second quarter, due to the delayed development of its business potential and the fact that the future development of markets and prices still cannot be estimated reliably. Moreover, if the assessments of the management concerning the financing situation described above do not materialise as such, the Group will be confronted with a challenging risk situation that could potentially endanger its continued operation as a going concern.

6 FORECAST REPORT

6.1 FRAMEWORK CONDITIONS

After the tremendous growth experienced in 2010, Phoenix Solar anticipates that the global photovoltaic market will stagnate temporarily on a high level (18–20 GWp) in the full year 2011. In Europe, we anticipate a market volume of 10 GWp in 2011, as compared to roughly 13 GWp in 2010. Over the medium-term and long-term future, however, the industry outlook remains positive. We expect that the global market will resume growth already in 2012, driven by viable future markets in the United States, Asia and the Middle East.

Starting in 2012, we expect that the nuclear disaster at the Japanese Fukushima plant, among other developments, will lead to substantially positive effects on the entire photovoltaic industry. The decisions taken in Germany and Switzerland to withdraw from nuclear power and the increasingly more critical attitude to this form of energy in France and Japan are clear signs that nuclear energy is being reconsidered, which will have an impact on the use of renewable energies. In the medium-term future, the Phoenix Solar Group will be one of the beneficiaries of this trend.

Based on the targets set by the European Union, the percentage of renewable energies is supposed to rise to 20 percent by the year 2020. The national action plans devised on that basis evince the necessity of expanding renewable energy sources further. For example, the German federal government is planning to increase the total installed photovoltaic capacity to 51.8 GWp by the year 2020. Based on our estimates, however, the German market reached the peak level of new installed capacity in 2010, with 7.4 GWp. In the coming years, therefore, it can be expected to contract and the “breathing lid” mechanism in effect in Germany will aim to bring about an annual volume of newly installed capacity of about 3.5 GWp through subsidy reductions, depending on the volume of newly installed capacity. Based on our estimates, therefore, the market volume could fall to a range of 4 to 5 GWp in the current year and then contract further to a range of 3 to 4 GWp in 2012.

6.2 NEW SALES MARKETS

Because we expect the market environment in Germany to become more difficult in the future, we will continue to pursue the internationalisation of the Phoenix Solar Group intensively. In particular, the company will focus on tapping new sales markets in Asia and on expanding the project business in the United States.

6.3 ANTICIPATED DEVELOPMENT OF UNIT SALES

We expect that the photovoltaic market will recover in the fourth quarter, especially in Germany, although not as strongly as had been previously assumed. Moreover, a year-end rally is not to be expected at the present time. The markets in Europe are developing in accordance with expectations. The markets in Asia and the United States are exhibiting a positive development. Both the number and the volume of projects to be implemented are growing. Most of these projects are scheduled for construction in 2012.

6.4 ANTICPATED DEVELOPMENT OF REVENUES AND EARNINGS

In consideration of the current development of photovoltaic markets and prices, the Executive Board of Phoenix Solar AG lowered its forecast revenues and earnings for financial year 2011 on 11 October 2011. The Executive Board now expects that Phoenix Solar will generate revenues of between EUR 350 million and EUR 400 million and earnings before interest and taxes (EBIT) of between EUR – 42 million and EUR – 49 million. The main reason for the anticipated high level of losses is the need to write down the value of inventories, due to the unrelenting decline of solar module prices.

Previously, the company had anticipated slightly lower consolidated revenues compared to the prior year (2010: EUR 635.7 million), without issuing a concrete EBIT forecast. After the weak demand experienced in the first half of the year, Phoenix Solar had expected demand to pick up in September, followed by a year-end rally in the fourth quarter, accompanied by predominantly stable module prices.

Short-term cost reduction measures have already been initiated. With the support of a management consulting firm, the Executive Board is currently exploring ways to optimise the business model and is seeking to identify further cost reduction potential, including savings in personnel expenses. The goal is to restore the Group’s profitability during the course of financial year 2012.

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

Sulzemoos, 10 November 2011
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Ulrich Reidenbach
(Chief Sales Officer)

Dr. Murray Cameron
(Chief Operating Officer)

CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE PERIOD
FROM 1 JANUARY UNTIL 30 SEPTEMBER 2011
OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

CONSOLIDATED INCOME STATEMENT

for the period from 01/01/ until 30/09/2011 in k€	Notes C.	Q1–Q3/2011	Q1–Q3/2010	Q3/2011	Q3/2010
Revenues	(1)	253,938	459,266	113,167	95,271
Change in inventory of work in process	(2)	7,331	9,154	6,982	8,610
Overall performance		**261,269**	**468,420**	**120,149**	**103,881**
Other operating income	(4)	6,526	2,335	764	459
Cost of materials	(3)	261,336	403,301	117,936	88,512
Personnel expenses	(5)	20,104	19,036	5,772	5,433
Depreciation and amortisation		1,108	718	477	273
Other operating expenses	(6)	24,817	16,538	9,989	5,873
Operating result		**– 39,570**	**31,162**	**– 13,261**	**4,249**
Result from associated companies		29	56	-8	7
EBIT		**– 39,541**	**31,218**	**– 13,269**	**4,256**
Financial income		333	163	37	38
Financial costs		3,023	1,413	1,178	502
Financial result	(7)	**– 2,690**	**– 1,250**	**– 1,141**	**– 464**
Consolidiated net income before income taxes (EBT)		**– 42,231**	**29,968**	**– 14,410**	**3,792**
Income taxes	(8)	-2,106	8,969	4,584	1,535
Consolidiated net income for the period		**– 40,125**	**20,999**	**– 18,994**	**2,257**
– of which due to minority interest		574	1	613	2
– of which due to majority shareholders		– 40,699	20,998	– 19,607	2,255
Earnings per share					
Earnings per share (basic)	(9)	– 5.52	3.04	– 2.66	0.31
Earnings per share (diluted)	(9)	– 5.52	3.04	– 2.66	0.31

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the period from 01/01/ until 30/09/2011 in k€	Notes D.	Q1–Q3/2011	Q1–Q3/2010	Q3/2011	Q3/2010
Consolidiated net income for the period		**– 40,125**	**20,999**	**– 18,994**	**2,257**
Transactions associated with minority interests		-19	0	0	0
Differences from currency translation		81	– 33	161	– 76
Income taxes recognised directly under equity		0	0	0	0
Changes in value recognised directly under equity	(15)	62	– 33	161	– 76
Overall performance		**– 40,063**	**20,966**	**– 18,832**	**2,181**
– of which due to minority interest		555	1	613	2
– of which due to majority shareholders		**– 40,618**	**20,965**	**– 19,445**	**2,178**

CONSOLIDATED BALANCE SHEET

as per 30 September 2011

ASSETS	Notes C. & D.	30/09/2011 k€	31/12/2010 k€
Noncurrent assets			
Intangible assets	(10)	4,260	3,471
Goodwill		533	533
Property, plant and equipment		3,303	3,110
Investments in associates		409	418
Other participating interests		160	160
Noncurrent receivables		1,253	688
Deferred tax assets	(8)	2,532	1,799
Noncurrent other financial assets	(13)	32	725
Total noncurrent assets		**12,482**	**10,904**
Current assets			
Inventories	(11)	155,314	149,536
Prepayments		10,342	3,346
Receivables from long-term construction contracts	(12)	83,398	82,227
Trade receivables		38,926	31,140
Current other financial assets	(13)	14,808	6,816
Current other non-financial assets	(14)	6,459	18,015
Current income tax assets	(8)	3,523	1,735
Cash and cash equivalents		16,685	9,588
Total current assets		**329,455**	**302,403**
Total assets		**341,937**	**313,307**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes C. & D.	30/09/2011 k€	31/12/2010 k€
Equity			
Subscribed capital	(15)	7,373	7,373
Capital reserve	(15), (16)	64,305	63,559
Accumulated other equity	(15)	28,254	71,453
Share of majority shareholders in consolidated equity		**99,932**	**142,385**
Share of minority interest in consolidated equity		634	60
Total equity		**100,566**	**142,445**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities		19	37
Noncurrent provisions		3,764	2,196
Deferred tax liabilities	(8)	97	3,113
Total noncurrent liabilities and provisions		**3,880**	**5,346**
Current liabilities and provisions			
Current financial liabilities	(17)	90,164	52,642
Liabilities from long-term construction contracts	(12)	10,959	267
Trade payables	(18)	93,972	84,538
Other financial liabilities	(19)	22,232	7,044
Other non-financial liabilities	(20)	10,507	13,047
Current provisions		1,523	1,693
Current income tax liabilities	(8)	8,134	6,285
Total current liabilities and provisions		**237,491**	**165,516**
Total liabilities and shareholders' equity		**341,937**	**313,307**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 1 January 2011 until 30 September 2011	Notes C. & D.	Subscribed capital k€	Capital reserve k€	Accumulated other equity k€	Share of majority shareholders in consolidated equity k€	Share of minority interest in consolidated equity k€	Total equity k€
As per 1 January 2010		**6,701**	**41,805**	**48,679**	**97,185**	**79**	**97,264**
Reserve for share options	(15) (16)		1,011		1,011		1,011
Exercise of share options	(15) (16)	1	33		34		34
Dividend payment	(15)			– 1,341	– 1,341		– 1,341
Increase of share capital		671	20,461	0	21,132		21,132
Difference from currency translation	(15)			– 33	– 33	1	– 32
Consolidated net income in 2010				20,998	20,998	1	20,999
As per 30 September 2010		**7,373**	**63,310**	**68,303**	**138,986**	**81**	**139,067**
As per 1 January 2011		**7,373**	**63,559**	**71,453**	**142,385**	**60**	**142,445**
Reserve for share options	(15) (16)		746		746		746
Dividend payment	(15)			– 2,581	– 2,581		– 2,581
Difference from currency translation	(15)			81	81		81
Consolidated net income in 2011				– 40,699	– 40,699	574	– 40,125
As per 30 September 2011		**7,373**	**64,305**	**28,254**	**99,932**	**634**	**100,566**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January 2011 until 30 September 2011	Notes C. & D.	Q1–Q3/2011 k€	Q1–Q3/2010 k€
Consoldiated income before income taxes		– 42,231	29,968
Depreciation and amortisation		1,108	718
Other non-cash income (–) and expenses (+) (including result from associated companies)		13,019	347
Profit/loss from disposal of intangible assets and equipments		1	– 3
Financial income	(7)	– 333	– 163
Financial costs	(7)	3,023	1,413
Sub-total		**– 25,413**	**32,280**
Increase/decrease in provisions (net of discounting effects and non-cash releases)		1,713	1,264
Increase/decrease in inventories	(11)	– 20,396	– 68,974
Increase/decrease in prepayments		– 6,997	– 2,955
Increase/decrease in receivables from long-term construction contracts	(12)	– 1,171	– 30,141
Increase/decrease in trade receivables (excl. non-cash transactions)		– 8,531	– 6,214
Increase/decrease in assets	(13), (14)	3,743	– 9,030
Increase/decrease in liabilities	(19), (20)	35,986	16,279
Funds generated by operating activities		**– 21,066**	**– 67,491**
Interest paid	(7)	– 2,507	– 1,470
Income taxes paid	(8)	– 2,443	– 11,384
Cash flow from operating activities		**– 26,016**	**– 80,345**
Proceeds from associated companies		37	45
Proceeds from disposal of intangible assets and equipment		8	3
Purchase of intangible assets and equipment	(10)	– 2,115	– 1,960
Cash flow from investing activities		**– 2,070**	**– 1,912**
Payments in connection with increases in subscribed capital	(15), (17)	0	21,050
Dividends paid	(16)	– 2,581	– 1,341
Payments in connection with financial liabilities	(18)	37,504	49,967
Interest income	(7)	260	108
Cash flow from financing activities		**35,183**	**69,784**
Changes in cash and cash equivalents		7,097	– 12,473
Currency-induced changes in cash and cash equivalents		0	0
Consolidation-related changes in cash and cash equivalents		0	0
Net change in cash and cash equivalents		**7,097**	**– 12,473**
Cash and cash equivalents at the start of the period		9,588	24,461
Cash and cash equivalents at the end of the period		16,685	11,988
Increase/decrease in cash and cash equivalents		**7,097**	**– 12,473**

SELECTED EXPLANATORY NOTES

TO THE INTERIM FINANCIAL STATEMENTS ACCORDING TO IFRS
FOR THE REPORTING PERIOD FROM 1 JANUARY TO 30 SEPTEMBER 2011
OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. GENERAL INFORMATION

As of 30 September 2011, the Phoenix Solar Aktiengesellschaft Group (referred to hereinafter as the Phoenix Group) consisted of 21 companies with a total of 403 (PY: 300) employees.

The parent company, which is also the highest-level parent company of the Group, is 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 business object of the parent company comprises the development, production, sales, operation and administration of components and systems for generating energy from renewable energy sources, and the construction and maintenance of such components and systems.

The parent company is admitted for trading in the Prime Standard segment of Deutsche Börse AG, Frankfurt am Main. As one of the stock exchange segments regulated by the European Union, the Prime Standard is meant for companies that also aim to attract international investors. As one of the conditions for listing in the Prime Standard, the company must prepare its financial statements according to the standards and interpretations issued by the International Accounting Standards Board (IASB), i.e., International Financial Reporting Standards (IFRS) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC), insofar as they have been endorsed by the European Union.

The IASB did not publish any amendments to the International Financial Reporting Standards or the Interpretations of the International Financial Reporting Interpretations Committee in the reporting period; the European Union adopted the improvements to the International Financial Reporting Standards (Annual Improvements to IFRS) from the 2008–2010 cycle as EU law in the Official Gazette of 19 February 2011.

On 16 June 2011, the IASB published amendments to IAS 19 Employee Benefits and corresponding amendments to IAS 1 Presentation of Financial Statements. The most important change to IAS 19 states that unexpected changes in pension obligations and any plan assets, known as actuarial gains and losses, must now be recognised directly in other comprehensive income (OCI). The amendments must be applied as of 1 January 2013; the European Union has not yet incorporated the amendments into EU law. Because the Phoenix Group does not have any such pension plans, the amendments will have no effect on its accounting and disclosure methods.

On May 12, 2011, the IASB and the Financial Accounting Standards Board (FASB) published the joint standard IFRS 13 Fair Value Measurement. The Standard deals with fair value measurement and with the related disclosures in the notes to the financial statements. Its purpose is to bring about the further convergence of IFRS and U.S. Generally Accepted Accounting Standards (US GAAP). IFRS 13 offers guidance for measuring fair value, to the extent that fair value is prescribed by other IFRSs; thus, IFRS 13 does not extend the concept of fair value measurement. The purpose is to harmonise the definition of fair value across all standards and to present the methods to be applied in measuring fair value and particularly also the disclosures to be made in the notes on the subject of fair value measurement.

The new Standard must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. The EU endorsement has not yet been issued. The Phoenix Group is currently reviewing the new Standard to assess the possible effects on the Group's financial position, cash flows and financial performance.

On May 12, 2011, the IASB published IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, as part of a comprehensive reform project. In this connection, IAS 27 (2011) Separate Financial Statements was adjusted to only contain the unchanged provisions applicable to separate financial statements under IFRS. Finally, IAS 28 (2011) Investments in Associates and Joint Ventures was amended and thereby adapted to reflect the new Standards IFRS 10, 11 and 12.

- IFRS 10 establishes a uniform definition for the concept of control, and therefore a uniform basis for ascertaining the existence of a relationship between the parent company and the dependent company, which is relevant to determining the scope of the consolidation group. The new Standard supersedes the formerly applicable IAS 27 (2008) Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities.
- IFRS 11 governs the accounting treatment of situations in which a company exercises joint control over a joint venture or engages in joint operations. The new Standard supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers, which had formerly been applicable to the accounting treatment of joint ventures.
- The disclosures to be made in the notes to the consolidated financial statements on the subject of business combinations and joint arrangements are specified in IFRS 12.

The new Standards must be applied in financial years that begin on or after 1 January 2013. Earlier application is permitted. The EU endorsement has not yet been issued. At the present time, the Phoenix Group anticipates that these publications will have no effect on its consolidation group.

The financial statements were released for publication on 10 November 2011 by the Executive Board.

B. RECOGNITION, MEASUREMENT AND CONSOLIDION METHODS

The consolidated financial statements have been prepared on the going concern basis. Regardless of that, it is referred to the report on opportunities and risks within the management report.

In accordance with the provisions of Section 37x (3) of the German Securities Trading Act (WpHG), the quarterly financial report of the Phoenix Group comprises a set of condensed interim consolidated financial statements and an interim management report for the Group. The condensed interim consolidated financial statements were prepared in accordance with the IFRS rules applicable to interim reporting, as they are to be applied in the European Union. The interim management report for the Group was prepared in accordance with the applicable provisions of the WpHG.

The consolidated interim report as of 30 September 2011 was prepared in accordance with IAS 34. The Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) to be applied in 2011 and the earlier Interpretations of the Standing Interpretations Committee (SIC) were observed. All comparison figures from the corresponding year-ago period were calculated on the basis of the same principles.

With the exception of the methods described below, the main recognition, measurement and consolidation methods are the same as those applied for the consolidated financial statements as of 31 December 2010. Thus, the interim financial statements should be read in conjunction with the published consolidated financial statements as of 31 December 2010.

In accordance with the principles of IAS 34 Interim Financial Reporting, tax expenses have been calculated on the basis of the effective tax rate expected for the full year. Tax effects arising in connection with extraordinary items are recognised in the quarter in which the underlying transaction occurred.

Compared to 31 December 2010, one new project company has been added to the consolidation group of the Phoenix Solar Group. In addition to Phoenix Solar AG as the parent company, the following companies were included in the consolidation group as of 30 September 2011:

Subsidiaries	Type of consolidation	Equity/voting rights 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 Incorporated, New Castle/Delaware, USA	Full consolidation	100 %
Phoenix Solar Pte Ltd, Singapore, Singapore	Full consolidation	75 %
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	Full consolidation	75 %
Phoenix Solar L.L.C., Muscat, Oman	Full consolidation	70 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phönix SonnenFonds GmbH & Co. KG D4, Sulzemoos, Germany	Full consolidation	100 %

Project companies	Type of consolidation	Equity/voting rights share
SOMI GmbH, Geroldshausen, Germany	Full consolidation	100 %
Scarlatti Srl., Eppan an der Weinstraße, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
Plaxo Solar S.L., Madrid, Spain	Full consolidation	100 %
Abalia Solar S.L., Madrid, Spain	Full consolidation	100 %
Hexasolar S.L., Madrid, Spain	Full consolidation	100 %
PSFR001 SARL, Strasbourg, France	Full consolidation	100 %
CE Solaire SAS, Le Castellet, France	Full consolidation	100 %
Batisolaire 3 SAS, Carpiquet, France	Full consolidation	100 %
SP1 d.o.o., Ljubljana, Slovenia	Full consolidation	100 %
FE5 s.r.l., Milan, Italy	Full consolidation	100 %

A French project company, CE Solaire SAS, was formed on 22 March 2011 for the purpose of executing a larger photovoltaic project in the Le Castellet region of France. The purchase price is deemed to be the assumed formation capital of EUR 50 thousand, less the losses incurred up to the acquisition date, in the amount of EUR – 11 thousand, and the net liabilities assumed in connection with the acquisition of project rights, in the amount of EUR 29 thousand.

On 17 August 2011, another French project company, Batisolaire SAS, was acquired for the purpose of executing a photovoltaic project in the Basse-Normandie region of France. The purchase price is deemed to be the assumed formation capital of EUR 1 thousand, less the profit/loss incurred up to the acquisition date, in the rounded amount of EUR 0 thousand, and the net liabilities assumed in connection with the acquisition of project rights, in the amount of EUR 145 thousand.

In connection with the expansion of the international power plant business, a Slovenian project company, SP1 d.o.o., was formed on 06. September 2011 for the purpose of executing a photovoltaic project in Slovenia. The formation capital amounted to EUR 8 thousand.

The project company TPC Photoenergy srl, Eppan an der Weinstraße, Italy, which was formed in 2008, was liquidated and deleted from the Commercial Register in September 2011, after completion of an Italian project. In connection with the deconsolidation, a deconsolidation result of EUR – 13 thousand was recognized in the third quarter. Furthermore, a project company, FE5 s.r.l., was acquired in Italy for the purpose of executing a photovoltaic project in Italy. The purchase price is deemed to be the assumed formation capital of EUR 47 thousand, less the profit incurred up to the acquisition date, in the amount of approximately EUR 1 thousand, and the net liabilities incurred in connection with the acquisition of project rights, in the amount of EUR 577 thousand.

As in the prior period, the following company was included in the consolidated financial statements by application of the equity method:

Company name	Type of consolidation	Equity/voting rights share
Phönix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	At-Equity	31.2 %

The condensed consolidated financial statements consist of a consolidated income statement plus a consolidated statement of other comprehensive income, as well as the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and condensed notes to the consolidated financial statements.

C. SELECTED NOTES TO THE CONSOLIDATED INCOME STATEMENT

(1) REVENUES

The revenues generated in the first nine months of 2011 were substantially lower, by EUR 205,328 thousand, than the corresponding figure for the first nine months of last year. By reason of the fact that the demand environment was extremely subdued, the Components & Systems segment generated revenues of only EUR 155,076 thousand in the first nine months of 2011. Compared to the year-ago period, the Power Plants segment generated only modest revenues and thus it contributed a smaller share of total revenues, in the amount of only EUR 98,862 thousand.

The revenues and their breakdown by operating segments and regions are presented in the Segment Report of the present explanatory notes to the consolidated financial statements (see Section F.)

(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 recognition of such projects in the first nine months of financial year 2011 increased work in progress by EUR 7,331 thousand (PY: EUR 9,154 thousand).

(3) PURCHASED GOODS AND SERVICES

The purchased goods and services were EUR 141,964 thousand less than the corresponding year-ago figure. Their distribution was in proportion to the development of revenues in the third quarter. This item also contained necessary value adjustments to the carrying amount of inventories, in the amount of EUR 29,026 thousand (PY: EUR 3,665 thousand) for the first nine months.

(4) OTHER OPERATING INCOME

The other operating income consisted mainly of unrealised gains on currency hedges for deliveries of materials that are contractually invoiced in foreign currencies, for which no hedging relationship was established according to the definition of IAS 39 (EUR 46 thousand; PY: EUR 141 thousand), as well as realised gains on ineffective currency hedges (EUR 359 thousand; PY: EUR 44 thousand) and power grid feed-in remuneration attributable to the Phoenix Group in connection with project-related pilot operations or receivable in connection with the company's own temporary operations, in the amount of EUR 2,613 thousand (PY: EUR 1,067 thousand).

(5) PERSONNEL EXPENSES

The slightly higher personnel expenses resulted from the increase in the company's workforce, particularly in the Group's sales unit.

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 this connection, expenses of EUR 52 thousand (PY: EUR 42 thousand) were recognised in the reporting period.

(6) OTHER OPERATING EXPENSES

The other operating expenses consisted mainly of company-specific expenses such as outbound freight, storage costs, selling expenses, legal expenses and consulting expenses.

(7) FINANCIAL RESULT

The financial result related mainly to new drawdowns under credit facilities and from the market measurement of interest rate hedging transactions, in the amount of EUR – 50 thousand (PY: EUR – 244 thousand).

(8) INCOME TAXES

Deferred tax assets and liabilities in the amount of EUR 192 thousand and EUR 5,359 thousand, respectively (PY: EUR 404 thousand and EUR 3,359 thousand, respectively) were recognised in respect of the differences between the carrying amounts of assets and liabilities according to IFRS and their tax bases. In addition, deferred tax assets for unused tax losses were recognised under the assumption of a reversal of temporary differences by EUR 5,554 thousand (PY: EUR 952 thousand); deferred taxes for unused tax losses of EUR 15,647 thousand (PY : EUR 0 thousand) reflecting consumptions of expected taxable profits and losses in financial years 2011 to 2014 have not been recognised so far, since the group is currently in a strategic reorientation and therefore the current planning was still in revision at the reporting date. The management currently expects, that the deferred taxes for unused tax losses will be accounted for in the fourth quarter of 2011. As of the reporting date, deferred taxes of EUR 5,554 thousand (PY: EUR 241 thousand) and current income taxes of EUR 500 thousand (PY: 996 EUR thousand) were presented on a net basis. After consolidation measures, deferred tax assets of EUR 2,532 thousand (PY: EUR 1,799 thousand) and deferred tax liabilities of EUR 97 thousand (PY: EUR 3,113 thousand) were recognised as of the reporting date.

As in the prior year, no deferred taxes were recognised in respect of outside basis differences in the financial year to date because most of the subsidiaries did not possess distributable net assets as of the reporting date or the funds were meant to serve as internal financing of the respective subsidiaries; outside basis differences in the amount of EUR 3,620 thousand (PY: EUR 1,815 thousand) were calculated as of 30 September 2011.

(9) EARNINGS PER SHARE

Because stock options have been issued, the diluted number of shares must also be determined. The calculation as of the reporting date is presented in the table below:

Diluted number of shares	30/09/2011	30/09/2010
Undiluted number of shares	7,372,700	6,897,601
Number of diluting options	0	0
Diluted number of shares	**7,372,700**	**6,897,601**

In accordance with IAS 33.66, the diluted and basic earnings per share are presented below the line item of consolidated profit or loss for the period.

D. SELECTED NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(10) INTANGIBLE ASSETS

The total intangible assets were EUR 789 thousand higher than the corresponding year-ago figure. This increase resulted mainly from the expenses incurred in connection with the purchase and internal development of computer software for the company’s own use, including the expenses incurred to prepare the software for use.

(11) INVENTORIES

The inventories consisted mainly of trading stock (especially solar modules and inverters). Such items are recognised as assets within inventories only after the goods have been shipped by the supplier and the risk of ownership has passed to Phoenix Solar AG. As of 30 September 2011, goods in transit were capitalised as trading stock in the amount of EUR 45,940 thousand (PY: EUR 33,117 thousand).

The total amount presented as trading stock included write-downs of EUR 29,026, including EUR 790 thousand in write-downs that had already been recognized as expenses as of 31 December 2010. The original acquisition cost of the inventories against which value adjustments were charged was EUR 91,194 thousand.

(12) RECEIVABLES AND PAYABLES UNDER CONSTRUCTION CONTRACTS

Receivables under long-term construction contracts are generally 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 this 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 under long-term construction contracts are recognised in proportion to the profits realised on the basis of the stage of completion. 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 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). They are presented as receivables or payables under long-term construction contracts. In cases when the accumulated work performed (contract costs incurred and profits recognised) exceeds the amount of down payments received, the corresponding amount is recognised as an asset. Anticipated contract losses are recognised in full; in determining such losses, due consideration is given to discernible risks.

As of the reporting date, gross receivables under long-term construction contracts were recognised in the amount of EUR 153,218 thousand (PY: EUR 120,790 thousand). These receivables related predominantly to projects in Germany. For the period from 1 January to 30 September 2011, contract revenues were recognised in the amount of EUR 83,386 thousand (PY: EUR 123,732 thousand), contract costs in the amount of EUR 67,370 thousand (PY: EUR 105,111 thousand) and profits in the amount of EUR 16,016 thousand (PY: EUR 14,497 thousand). The profits included foreign currency effects in the amount of EUR 130 thousand. Losses in the amount of EUR 1,004 thousand (PY: EUR 493 thousand) were recognised as expenses for contracts that are expected to be completed with a negative margin.

Down payments of EUR 77,276 thousand (PY: EUR 38,563 thousand) were collected on account of contracts and other down payments of EUR 38,084 thousand (PY: EUR 24,302 thousand) were requested. Commitments under long-term construction contracts were recognised in the amount of EUR 10,959 thousand (PY: EUR 267 thousand) to account for down payments collected that exceeded the corresponding project stage of completion.

Including requested and recognisable down-payments and partial invoices, the total presented amount of EUR 83,398 thousand (PY: EUR 82,227 thousand) breaks down as follows:

Carrying amounts	**30/09/2011 k€**	**31/12/2010 k€**
Receivables under long-term construction contracts after deduction of partial invoices based on stage of completion	45,314	57,925
plus progress billings	38,084	24,302
Amount presented in the statement of financial position	**83,398**	**82,227**

Borrowing costs of EUR 1,221 thousand (PY: EUR 1,248 thousand) were recognised as project costs in connection with long-term construction contracts; an interest rate of 3.4 to 3.5 percent was applied as the borrowing cost rate, unchanged from the prior period.

As of 30 September 2011 the total order book for the Group amounted to 237 Mio. Euro (PY: EUR 271 Mio.).

(13) OTHER FINANCIAL ASSETS

The Group usually employs interest rate caps and swaps to hedge against operational interest rate risks. As of 30 September 2011, an interest rate cap with a notional volume of EUR 10,000 thousand (previous year: EUR 10,000 thousand) was in effect. The difference between the acquisition cost and the fair value, in the amount of EUR 50 thousand (PY: EUR 50 thousand), was recognised in the income statement.

(14) OTHER NON-FINANCIAL ASSETS

In connection with the increased inventories, the Group has accumulated larger amounts of sales tax refund claims totalling EUR 5,732 thousand (PY: EUR 14,780 thousand). In the periodic tax return filings, these refund claims are set off against the sales tax liabilities incurred in the ordinary course of business.

(15) EQUITY

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

As of 30 September 2011, the company's share capital was unchanged at EUR 7,372.7 thousand. It is divided into 7,372,700 (previous year: 7,372,700) no-par bearer shares (common shares), and was fully paid in as of the reporting date for the consolidated financial statements.

In order to provide the company with adequate manoeuvring room in the future as well, it was resolved in the annual general meeting of 14 July 2011 to annul the entire still existing amount of Authorised Capital 2010 and to establish a new Authorised Capital (Authorised Capital 2011), again in the amount of one half the company's share capital (EUR 3,351,250.00). The precise terms and conditions of utilization are set out in Agenda Item VII of the invitation to the annual general meeting and can be viewed on the parent company's website (http://www.phoenixsolar-group.com/de/investor-relations/hv2011/einladung-tagesordnung.html).

The annual general meeting of 14 July 2011 resolved to pay a dividend of EUR 0.35 (PY: EUR 0.20) per qualifying share, corresponding to a total dividend pay-out of EUR 2,581 thousand (PY: EUR 1,341 thousand).

The currency translation reserve is the only component of equity resulting from transactions and changes in measured value that are to be recognised directly in equity.

(16) STOCK OPTION PLAN

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 ("SOP 2006" as an abbreviation for Stock Option Plan 2006), under which, as of the reporting date, a total of 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 70,850 stock options had expired due to resignations and 18,000 had been exercised. As of the reporting date, therefore, there remained 251,500 stock options, which can be exercised only if the beneficiary is employed by the company or a Group company and the employment relationship has not been terminated by either party with valid effect at the time of exercising the stock options.

The fifth tranche was established in May 2011, under the following terms and conditions:

	SOP 2006 (2011)
Issue date	06/05/2011
Valuation date	06/05/2011
Stock exchange price of the company's share on the valuation date	20.24 €
Vesting period	2 years
Term (including the vesting period)	7 years
Exercise price	20.44 €
Risk-free interest rate	2.11 %
Volatility	57.75 %
Annual dividend per share	0.30 €
Dividend due date (assumption)	approx. 15 June of each year
Number of simulations performed	10,000,000 in every case

The volatility was calculated as the historical volatility based on the share price history in the period from 6 May 2008 to 6 May 2011 (Tranche V). The expected volatility is based on the average of historical volatilities. The risk-free interest rate was calculated with the aid of the Svensson method. Based on this calculation method, the value of each option was found to be EUR 8.761 (Tranche V) on the issue date.

For Tranche I, the average weighted share price upon the exercise of the stock options was EUR 38.61 (PY: EUR 38.61).

Because the expenses are distributed over the period from the grant date to the expiration of the vesting period, expenses of EUR 746 thousand (PY: EUR 1,011 thousand) were recognised as share-based compensation in the first three quarters of financial year 2011.

Other transactions with related parties are the same as those presented in the Annual Report 2010.

(17) CURRENT FINANCIAL LIABILITIES

In consideration of the non-project-related supply agreements for solar modules, inventories are financed partially by means of drawdowns from the available credit facilities extended by the bank syndicate. As a general rule, these credit facilities are to be drawn down only on a short-term basis. The interest rates range from 3.0 to 3.75 percent p.a. (PY: 2.5 to 3.3 percent p.a.).

In this regard, Phoenix Solar AG reached an agreement with its syndicate banks to extend ahead of time the EUR 150 million syndicated loan agreement concluded in November 2008 to November 2012. This facility serves to finance the working capital of the Phoenix Solar Group and to finance necessary guarantees and letters of credit.

(18) TRADE PAYABLES

As of the reporting date, a large proportion of the inventories had been purchased on credit in the form of goods in transit. As a rule, payment is effected within the allowed discount periods.

(19) OTHER FINANCIAL LIABILITIES

The Phoenix Solar Group is exposed to interest rate risks in connection with the financing of working capital. The company has entered into interest rate hedging transactions to hedge the resulting cash flow risk. As of the reporting date, the company held interest rate swaps in the total notional amount of EUR 0 thousand (PY: EUR 0 thousand), the total negative fair value of which was EUR 0 thousand (PY: EUR 185 thousand).

(20) OTHER NON-FINANCIAL LIABILITIES

Due to the growing internationalisation of the company's business, sales tax liabilities have been incurred in European countries to a greater extent than before. The sales tax liabilities of the preceding financial year were settled. Otherwise, this item comprises social security withholding amounts to be transferred, as well as mostly short-term other liabilities due to employees.

(21) CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

There were no significant contingent assets or contingent liabilities, meaning possible commitments that exceed the scope of normal business operations, as of 30 September 2011 (and also none as of the year-ago reporting date).

As of 30 September 2011, firm orders for purchased materials amounted to EUR 5,442 thousand (PY: EUR 48,404 thousand).

The company is subject to purchasing commitments for materials under master agreements (mainly for solar modules) in the amount of EUR 118,407 thousand (PY: EUR 281,607 thousand).

The Group is subject to financial commitments in the total amount of EUR 8,583 thousand (PY: EUR 7,122 thousand) under various rental and leasing agreements. Of that total, an amount of EUR 1,716 thousand (PY: EUR 1,592 thousand) is due in less than one year, EUR 3,074 thousand (PY: EUR 2,872 thousand) is due in one to five years and EUR 3,793 thousand (PY: EUR 2,658 thousand) is due in more than five years.

In May 2010, Scarlatti Srl., Eppan an der Weinstraße, Italy, purchased shares in three Italian project companies. Two instalment payments were agreed as consideration for the purchase of shares. The first part of the purchase price obligation, in the total amount of EUR 550 thousand, was due upon the signing of the contract and was paid; the second part of the purchase price obligation, in the amount of EUR 10,426 thousand, is contingent upon the fulfilment of certain project-related conditions, which were not yet fulfilled as of the reporting date and can only be completely fulfilled by the sellers of the shares. The purchase of a 51 percent stake of non-voting shares in each one of the project companies does not constitute a business combination according to the definition of IFRS 3 because the acquired company does not meet the economic definition of a "business" set out in IFRS 3; instead, the transaction is a structured acquisition of a single asset, the "project right," secured by shareholder's lien. The Phoenix Group intends to complete the projects in the next six months, thereby rendering the second instalment due and payable.

E. SEASONAL FACTORS

The business of companies operating in the photovoltaic sector is subject to strong seasonal fluctuations. As a general tendency, the results of the last two quarters are higher than those of the first two quarters of a given financial year. As a result of the growing internationalisation of the company's business, which allows for a global scope of action, seasonal restrictions are becoming less relevant to the company's business, depending on the distribution of profits earned.

Regional weather conditions and national legislative initiatives related to renewable energies, along with the specific implementation of those initiatives in the form of remuneration rates for power grid feeds and graduated rate decreases or production limits, for example, exerted a greater influence on the ordinary business operations of the company.

F. SEGMENT REPORT

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, income or expenses from associated companies and 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 are based exclusively on 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 an allocation key that is generally derived on a uniform basis from revenues or total operating performance.. 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:

For the period from 1 January 2011 to 30 September 2011, according to IFRS	Power Plants k€	Components & Systems k€	Other k€	Consoli-dation k€	Group k€
Segment profit or loss statement					
External revenues	98,862	155,076	0	0	253,938
Inter-segment revenues	0	0	0	0	0
Segment revenues	**98,862**	**155,076**	**0**	**0**	**253,938**
Segment profit or loss	– 4,097	– 35,473	0	0	– 39,570
Income from associated companies	29	0	0	0	29
EBIT					– 39,541
Financial result					– 2,690
Consolidated profit or loss before taxes					– 42,231
Income tax expenses					– 2,106
Consolidated profit or loss after taxes					– 40,125
– thereof attributable to non-controlling interests					574
– thereof attributable to the majority shareholder					**– 40,699**
Other information					
Capital expenditures	805	1,310	0	0	2,115
Depreciation and amortisation	426	682	0	0	1,108
Non-cash expenses	6,152	11,571	0	0	17,723
Non-cash income	2,699	1,976	0	0	4,675
Assets					
Segment assets	119,498	197,014	0	0	316,512
Shares in associated companies	409	0	0	0	409
Non-assigned assets					25,016
Consolidated assets					**341,937**

For the period from 1 January 2010 to 30 September 2010, according to IFRS	Power Plants k€	Components & Systems k€	Other k€	Consoli-dation k€	Group k€
Segment profit or loss statement					
External revenues	191,108	268,158	0	0	459,266
Inter-segment revenues	0	0	0	0	0
Segment revenues	**191,108**	**268,158**	**0**	**0**	**459,266**
Segment profit or loss	7,597	23,605	– 40	0	31,162
Income from associated companies	56	0	0	0	56
EBIT					31,218
Financial result					– 1,250
Consolidated profit or loss before taxes					29,968
Income tax expenses					– 8,969
Consolidated profit or loss after taxes					20,999
– thereof attributable to non-controlling interests					– 1
– thereof attributable to the majority shareholder					**20,998**
Other information					
Capital expenditures	1,034	926	0	0	1,960
Depreciation and amortisation	286	432	0	0	718
Non-cash expenses	556	843	0	0	1,399
Non-cash income	564	432	0	0	996
Assets					
Segment assets	99,261	180,971	0	0	280,232
Shares in associated companies	415	0	0	0	415
Non-assigned assets					7,715
Consolidated assets					**288,362**

The revenues of the Group were divided among the following regions:

Revenues by region	Q1–Q3/2011 k€	Q1–Q3/2010 k€
Germany	104,289	361,770
EU excluding Germany	130,313	95,925
Other	19,336	1,571
Total	**253,938**	**459,266**

The non-current assets were divided among the regions as follows:

Non-current assets by region	30/09/2011 k€	30/12/2010 k€
Germany	8,149	8,039
EU excluding Germany	493	469
Other	122	111
Total	**8,764**	**8,619**

G. SIGNIFICANT EVENTS AFTER THE INTERIM REPORTING DATE

There are no significant events after the balance sheet date to report.

Sulzemoos, 10 November 2011
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Ulrich Reidenbach
(Chief Sales Officer)

Dr. Murray Cameron
(Chief Operating Officer)

AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

To the best of our knowledge, we hereby affirm that, pursuant to the generally accepted accounting principles for interim reporting, the interim consolidated financial statements give a true and fair view of the assets, financial position and the results of operations of the Phoenix Group, and that the interim 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 opportunities and risks inherent in the prospective development of the Group during the remainder of the fiscal year.

Sulzemoos, 10 November 2011
Phoenix Solar Aktiengesellschaft
The Executive Board

Dr. Andreas Hänel
(Chief Executive Officer)

Sabine Kauper
(Chief Financial Officer)

Ulrich Reidenbach
(Chief Sales Officer)

Dr. Murray Cameron
(Chief Operating Officer)

FINANCIAL CALENDAR

11/05/2011	Q1 Report/Interim Figures as per 31/03/2011
14/07/2011	Ordinary Annual General Meeting of Shareholders 2011
11/08/2011	Q2 Report/Interim Figures as per 30/06/2011
10/11/2011	Q3 Report/Interim Figures as per 30/09/2011

The updated financial calendar can be viewed on the Phoenix Solar AG website under www.phoenixsolar-group.com/en/investor-relations/financial-calendar

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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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.

Making energy together

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