phoenix SOLAR

Annual report 2014

PHOENIX SOLAR AT A GLANCE

Financial Figures

Revenues and results		01/01/2014 – 31/12/2014	01/01/2013 – 31/12/2013	Change
Shipments	MWp	28.9	126	– 77.1 %
Revenues (Consolidated)	k€	33,783	141,223	– 76.1 %
– Domestic	k€	3,031	16,667	– 81.8 %
– International	k€	30,753	124,556	– 75.3 %
Overall performance	k€	33,783	141,223	– 76.1 %
EBIT (Consolidated)	k€	– 4,616	– 1,407	– 233.0 %
– In % of revenues (EBIT margin)	k€	– 13.7	– 1.0	– 12.9 PP
Consolidated net income for the period	k€	– 10,167	– 9,306	– 9.3 %
– from discontinued operations	k€	4,281	688	522.2 %
– from continuing operations	k€	– 14,448	– 9,993	– 44.6 %
Revenues[4]	k€	29,692	136,123	– 78.2 %
EBIT[4]	k€	– 10,456	– 2,345	345.9 %
Orders on hand[1]	k€	46,233	64,991	– 28.9 %
Net orders on hand[1]	k€	36,301	4,286	747.1 %

Balance sheet[1]		31/12/2014	31/12/2013	
Total assets	k€	45,240	67.758	– 33.2 %
Equity	k€	– 1,583	7.464	– 121.2%
Equity ratio	%	– 3.5	11.0	– 14.5 PP
Return on equity	%	– 642.1	– 124.7	– 517 PP

Phoenix SonnenAktie®[1]				
No-par bearer shares	Units	7.372.700	7.372.700	– 0.0 %
Closing price	€	1.55	4.70	– 67.0 %
Marktkapitalisierung	k€	11.435	34.652	– 67.0 %

Earnings per share		2014	2013	
Basic	€	– 1.38	– 1.45	0.07
– from continuing operations	€	– 1.96	– 1.54	– 0.42
– from discontinued operations	€	0.58	0.09	0.49
Diluted	€	– 1.38	– 1.45	0.07
– from continuing operations	€	– 1.96	– 1.54	– 0.42
– from discontinued operations	€	0.58	0.09	0.49

Employees				
Employees from continuing operation[2]	Heads	96	102	– 5,9 %
Employees from discontinued operations[2]	Heads	0	18	n.a. %
Employees from continuing operation[3]	FTE	96	132	– 25.1 %
Employees from discontinued operations[3]	FTE	14	15	– 6.4 %
Revenues per FTE[34]	k€	309	1,031	– 70.0 %

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

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

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

[4] Figures are based on continuing operations

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

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TO OUR SHAREHOLDERS

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

When I took up my position as Group CEO three months ago and assumed responsibility for heading your company, I found an organization which, after a good deal of turbulence, was in a much better position than an outsider could have imagined. All said and done, Phoenix Solar is among the few globally-oriented German solar pioneers which remain. The company is lean and in fighting shape. We have the required EPC skills (engineering, procurement and construction), a competitive cost base and a finance package from our banks which will take us through September 2016. Most importantly, as the Executive Board has communicated on several occasions in 2014: our global project pipeline has a great deal of potential and continues to develop very positively.

In 2014 Phoenix Solar experienced a considerable decline in revenue and operating results – one cannot ignore this fact. However, we know that this was a year of transition and strategic realignment towards the global project business a period during which the company repositioned itself to take full advantage of opportunities in the ever-growing global solar photovoltaic markets.

Other important changes took place in 2014 as well regarding our company's activities. As the large-scale solar business has come to a halt in our home market, we have discontinued most of our activities in Germany and, in the process, exited the two remaining business segments. Our company's headquarters of course remains in Sulzemoos, to the north-west of Munich.

The prospects for the O&M (operations and maintenance) services provided by the team based in Ulm – supporting power plants with some 200 MWp of capacity throughout Europe – were no longer viable. With this in mind, we sold these operations to SMA Technologies AG in the second half of 2014. Nonetheless, expanding O&M service offerings in our subsidiaries located outside Europe remains a distinct possibility, assuming we can achieve scale.

We launched an innovative business model with the aim of selling small, standardized solutions for homeowners' own power consumption in a pilot project for a limited period of time. Unfortunately, the start of this project came squarely in the middle of political discussions about levying charges on self-generated electricity for own consumption, which fuelled customers' uncertainty. Moreover, in view of the Group's challenging situation at the time, we were unable to achieve scale with this promising approach.

In looking back, I would like very much to thank all of those whose dedicated support allowed Phoenix Solar to weather this transition and who are currently now forging ahead to further develop our core business. Our thanks also go to those who left the us for other companies or industries. In particular, I wish to extend my sincere and heartfelt thanks to Dr. Bernd Köhler, my predecessor, who showed tremendous dedication and skill to launch Phoenix Solar on a new path and sound financial footing in extremely challenging times.

Today our company is strongly anchored in the international project business, above all through our presence in the USA, south-east Asia and the Middle East as an EPC (engineering, procurement and construction) contractor for solar photovoltaic power plants. We are already seeing success in these new high-growth markets, particularly in the USA. Major new orders received in recent weeks are the result of dedicated work by competent local teams for our customers and business partners. These confirm that we are moving steadily towards achievement of the goals laid out a year ago albeit with some delay but, in our view, with solid prospects for a sustainable business in the current and coming years.

It is important for our shareholders to understand the complexity of large-scale projects. These typically involve investors, financing banks, regulatory authorities, land owners, electric utilities, subcontractors and others. The approval and alignment processes in such projects can be both long and challenging, requiring dedicated efforts by our skilled teams to resolve technical, financial and commercial questions. Often project delays are beyond our direct control – indeed, one of the single biggest drivers for 2014 results were just such delays. Through better planning, hiring of experienced industry professionals and very structured internal processes, we continue to improve our skills in 2015 and minimize any delays.

It should be noted that we maintain very strong local networks among the many players mentioned above in our target geographies. Our customers and other market participants know Phoenix Solar as an experienced, reliable and competent partner, willing to do whatever it takes to deliver quality PV systems. There are many arguments for choosing Phoenix as a project partner.

With more than 1.2 GWp of modules and systems delivered and built, we rank among the world's most experienced EPC suppliers. As always, our clients can count on German reliability, a systematic approach and engineering excellence: we have realized many flagship projects – on-time and on-budget – in our target markets. With our growing success comes an improved financial position, better financing conditions and ultimately improved returns for our shareholders.

The quality of our work, particularly in engineering, by which I mean efficient planning and high-output system design, is a key factor for success. Safety on the job site, while respecting all local requirements, is of the utmost importance to us. A proven ability to execute and deliver high-performance solar power plants rounds out our skill set. Looking forward, we will continue to differentiate ourselves from the competition with EPC and further services to our customers designed to complement our core business. Our ultimate goal remains: build solar photovoltaic plants for customers and investors to the highest standard, to reliably achieved planned output for many years to come. This is our core business and a major opportunity for us to prosper in the growing global solar market.

Our success starts with a very structured and professional acquisition effort, which will be an area of particular focus for myself: leading our international sales teams, expanding our global project pipeline, leveraging my broad solar industry expertise on a daily basis to move project closings forward. We must be reliable, cost conscious and customer-oriented, while ensuring our clients the highest quality and safety standards. We continue to develop these skills through our daily work. As we further build our global teams, we generally choose only highly-qualified industry experts and leverage their skills for the greatest impact. Our common goal as a team remains acquisition and execution of the profitable projects we need to generate revenues and earnings to plan.

Ultimately, we view ourselves as being part of the global movement towards a more sustainable and environmentally-friendly means of generating energy for a growing world. Photovoltaics can give people access to cost-effective electricity almost anywhere – whether on or off the grid, whether commercial-scale or residential, while at the same time lowering global CO_2 emissions. Solar has in fact reached grid parity in many geographies around the world and government support and incentives will become unnecessary in many locations. Our technology has become mainstream, its growth unstoppable and the arguments in favor of it obvious to all. The economics of solar energy will ultimately prevail, of this we are convinced. Industry experts generally agree that solar photovoltaics will continue to steadily increase its share of the world's power generation in years to come. Indeed, 2014 saw the installation of some 50 GWp of solar power PV around the world, smashing another record! Phoenix Solar is and will remain an active and credible participant in this energy revolution.

Together with my colleagues in the Executive Board, our employees in the Sulzemoos headquarters and in the subsidiaries of Phoenix Solar AG on three continents, I am determined to find and leverage the massive opportunities which this solar megatrend offers our company. We can and will successfully pursue our vision of profitable, sustainable growth – through:

“Excellence in EPC!”

With best regards,

Tim P. Ryan
(Chief Executive Officer)

EXECUTIVE BORD OF PHOENIX SOLAR AG

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

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

MANFRED HOCHLEITNER
Chief Financial Officer
since January 1st, 2015

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

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

Responsible for:
- Business Support International

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board hereby submits its report to the Annual General Meeting of shareholders, particularly on its supervision of management during the year under review, on its audit of the company's financial statements and management report prepared as of December 31st, 2014 pursuant to the provisions of the German Commercial Code (HGB), as well as on the consolidated financial statements and Group management report, and on its opinion on the auditor's report.

BACKGROUND INFORMATION

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

The Supervisory Board has comprised the following members since June 28th, 2013: J. Michael Fischl (Chairman), Prof. Thomas Zinser (Deputy Chairman) and Oliver Gosemann. The requirements in terms of independent financial experts in the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) (financial expert) were, and are, fulfilled by Prof. Thomas Zinser, whose main professional occupation is as a tax adviser.

No committees were formed.

Pursuant to the resolution of the AGM of May 28th, 2014, the Supervisory Board Chairman on December 29th, 2014 mandated PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Munich, pursuant to Section 111 (2) Clause 3 of the German Stock Corporation Act (AktG), to audit the separate annual financial statements, the management report, and the consolidated financial statements and Group management report that are prepared pursuant to Section 315a of the German Commercial Code (HGB) on the basis of IFRS / IAS. The external auditor submitted an auditor's independence declaration to the Supervisory Board Chairman in accordance with section 7.2.1 of the German Corporate Governance Code, of whose correctness the Supervisory Board is not in doubt.

On May 25th, 2015, the Supervisory Board coordinated with the Executive Board concerning the corporate governance report pursuant to the regulations of the German Corporate Governance Code in its version of May 26th, 2010 (published in the electronic Federal Gazette of July 2nd, 2010) and in its version of May 15th, 2012 (published in the Federal Gazette of June 15th, 2012), as well as the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of conformity was published pursuant to statutory regulations. The complete corporate governance report, including the declaration of conformity, forms part of the annual report.

The Supervisory Board reviews the efficiency of its work annually as part of its closed-door session. Suggestions for improvement are also submitted at each meeting. The key areas of this efficiency review comprise the structuring and organisation of the meetings, the optimising of reporting by the Executive Board, and the passing of resolutions on agenda items, as well as the presentation of the company's financial position and performance, and the subsidiaries' positions. The Supervisory Board members participated in external further training measures over the course of the year with a view to optimising technical and specialist qualifications.

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

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

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

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

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

- consolidation through sustainable restructuring to secure the company as a going concern, in cooperation with the restructuring consultant,
- discussion of and preparation for further steps in the event of unsuccessful consolidation and/or discussions with banks,
- new appointments to the Chief Executive Officer and Chief Financial Officer positions,
- matters affecting taxation, particularly at subsidiaries,
- reduction in personnel while taking the aspect of securing the company's competitiveness into consideration,
- development of a viable marketing and sales strategy, especially for the USA,
- assessment of the consequences of political debate relating to curtailing feed-in tariffs and other supportive measures in key regions, such as Germany, Southern and South-Eastern Europe, as well as in the USA, for the company's business policy,
- analysis of alternatives and/or supplementary business segments to reduce the risk of strong dependence on political decisions,
- the success of the new business model in Germany, as well as the further approach in the regions of Germany, Europe and the Middle East,
- the sale of the operations and maintenance area of the company in Ulm
- receipt and discussion of the Executive Board reports pursuant to Section 90 of the German Stock Corporation Act (AktG) on the liquidity and financial positions, intended business policy and other fundamental issues pertaining to corporate planning (in particular finance, investment and personnel planning),
- monitoring the development of the internal control system (risk monitoring and early warning system pursuant to Section 91 (2) of the German Stock Corporation Act [AktG]), and information obtained on this basis,

- receipt and discussion of compliance reports
- receipt and discussion of reports submitted by the internal audit function,
- monitoring the company's stock market value,

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

- personnel reduction in the centralised units and to some extent in the European subsidiaries,
- building up of the sales organisation in existing core markets, particularly America,
- closure of the new sales channel in Germany,
- clarification of tax questions for European subsidiaries,
- allocation of responsibilities at Executive Board level,
- Group business planning,
- the intake of large-scale projects,
- the strategic realignment of Phoenix Solar AG.

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

CHANGES AT EXECUTIVE BOARD LEVEL

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

The company's Chief Executive Officer and Chief Financial Officer, Dr. Bernd Köhler, left the company as of December 31st, 2014, when his contract expired.

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

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

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

- the separate annual financial statements for the 2014 financial year,
- the management report by the Executive Board on the company's position in 2014,
- the 2014 consolidated financial statements prepared in accordance with IFRS / IAS standards,
- the Group management report by the Executive Board on the Group's position 2014.

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

At its financial accounts meeting on March 25th, 2015 – which was also attended by the Executive Board, which explained the financial statements that it had prepared, as well as the risk management system – the Supervisory Board examined the separate annual financial statements and management reports, and conducted an intensive and in-depth discussion with the auditor who was also present and reported on the significant results of its audit, as well as its focal points and scope, and was available to provide additional information. No major weaknesses in the internal control and risk management system relating to the accounting process were identified.

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

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

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

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

In its meeting on March 25th, 2015, following consultation with the independent auditor pursuant to Section 171 (2) of the German Stock Corporation Act (AktG), the Supervisory Board issued the following statement on the independent auditor's report:

"Based on its own review, the Supervisory Board concurs with the results of the audit of the separate annual financial statements and the 2014 management report, as well as the consolidated financial statements and 2014 Group management report, by the independent auditor who has issued unqualified audit opinions. No objections were raised following the final result of the review by the Supervisory Board. Accordingly, the separate annual financial statements as at December 31st, 2014 are ratified by the Supervisory Board in its meeting on March 25th, 2015, and thereby adopted. Moreover, the Supervisory Board also ratifies the consolidated financial statements as at December 31st, 2014."

Sulzemoos, March 25th, 2015

J. Michael Fischl
(Chairman of the Supervisory Board)

CORPORATE GOVERNANCE REPORT

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

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

During the year under review, the Executive and Supervisory boards of Phoenix Solar AG consulted about the recommendations and suggestions of the "Government Commission German Corporate Governance Code" (DCGK) in the version of June 24th, 2014 (published in the German Federal Gazette [Bundesanzeiger] on September 30th, 2014). On March 25th, 2014, they jointly issued an updated statement of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

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

DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As an internationally operating company, Phoenix Solar is devoting greater attention to the issue of diversity. We regard diversity and equal opportunity as fundamental principles in our working environment. In 2014, employees from 17 different countries were employed within the corporate Group of Phoenix Solar AG. Of the total workforce numbering 101 employees (status as of December 31st, 2014, excluding Executive Board members, trainees and temporary staff), 33.7 percent were women. The proportion of women holding second level managerial positions stood at 39.1 percent at the year-end.

SUPERVISORY BOARD SIZE

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

SUPERVISORY BOARD EXPERTISE

The Supervisory Board holds regular closed-door sessions to analyse the expert and personal prerequisites to fulfil its tasks based on an extensive review of the prevailing situation. These prerequisites are then measured against an analysis of the strengths, weaknesses, opportunities and threats (SWOT analysis) of the potential embodied by the Supervisory Board. This forms the basis for the continuous professional development of the respective individuals, and for succession planning.

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

SUPERVISORY BOARD COMPOSITION TARGETS

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

- The company will endeavour to ensure that at least one Supervisory Board member embodies the criterion of internationality to a particular extent, either through being a foreign national and/or through having significant international experience.
- Moreover, the Supervisory Board members should be independent.
- The Supervisory Board strives to achieve an optimal composition based on professional criteria and the company's situation. The requirements profiles determined in this process are to be applied to potential candidates irrespective of their gender and, in the case of equal qualifications and experience, women will be given preference. Owing to the small number of Supervisory Board members, no quotas have currently been set for specific criteria pertaining to diversity.
- The forming of committees has been dispensed with in view of the small number of Supervisory Board members, and the already fast decision-making channels in place.
- The age limit for members of the Supervisory Board is 67.

With Oliver Gosemann, the Supervisory Board has a member with extensive international business experience, thereby meeting the criterion of internationality. The Supervisory Board is currently comprised exclusively of independent members. None of these members maintains a personal or business relationship with the company, its committees, a controlling shareholder, or an affiliate associated with such a shareholder, that could constitute a material and not merely temporary conflict of interest, nor do they exercise a consultancy or committee function at customers, suppliers, lenders or other third parties. No member of the Supervisory Board has currently reached or exceeded the age limit of 67 years. The Supervisory Board currently includes no female members.

Along with the requirements posed by the company's situation and specialist matters, in future election proposals the Supervisory Board will also take into account that the targets that have been set in relation to the Supervisory Board's composition are taken into consideration in respect of female Supervisory Board members, which are not met currently. The remaining targets have already been met, by contrast.

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Business activity is connected not only with risks, but can also entail a failure to exploit relevant opportunities. For this reason, it is our responsibility to optimise the exploitation of opportunities for the company, while keeping risks to a minimum. Phoenix Solar AG has consequently installed risk management as a permanent process spanning all areas of the company to identify, assess, manage and control risks that arise. Beyond risks to the company as a going concern, activities, events and developments that could have a significant impact on the success of the company's business in the future are also covered. The goals, processes and distribution of tasks in the risk management system are documented in the company's risk management manual.

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

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

SHAREHOLDINGS AND DIRECTORS' DEALINGS

Notifications on the securities transactions of the Executive and Supervisory boards in shares of Phoenix Solar AG within the meaning of Section 15a (directors' dealings) of the German Securities Trading Act (WpHG) can be viewed in the company register. These notifications have also been posted on the company's website at http://www.phoenixsolar-group.com/en.html, updated and listed under "Directors' Dealings", where they are accessible for the period of one month.

In the 2014 financial year, a number of individual transactions pursuant that require reporting to Section 15a of the German Securities Trading Act (WpHG) were realised by one Supervisory Board member. Not reportable pursuant to Section 15a of the German Securities Trading Act (WpHG) are the purchase or sale of the shares of Phoenix Solar AG if the sum total of transactions performed by an individual member of the Executive or Supervisory boards, or a person related to them, does not reach or exceed an amount of EUR 5,000.

As of December 31st, 2014, the Executive Board members held a total of 69,750 shares, or 0.95 percent of the votes (December 31st, 2014: 69,750 shares or 0.95 percent). The Supervisory Board members held a total of 9,100 shares, or 0.12 percent of the shares (December 31st, 2013: 100 shares, or 0.0 percent).

Both boards' members together hold shares equivalent to a 1.07 percent interest in the company (December 31st, 2013: 0.95 percent).

COMPENSATION REPORT

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

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

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

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

RELEVANT CORPORATE GOVERNANCE PRACTICES

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

The Executive and Supervisory boards have also adopted the recommendations of the "Government Commission of the German Corporate Governance Code", insofar as no departure from the Code is disclosed in the declaration of conformity. The company's declaration of conformity has been made accessible on the company's website. The German Corporate Governance Code can be accessed on the website of the Government Commission of the German Corporate Governance Code under http://www.dcgk.de/de/kodex/aktuelle-fassung/praeambel.html.

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

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

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

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

As a rule, the Executive Board passes resolutions at meetings that the Chief Executive Officer convenes and chairs. Any member of the Executive Board may request that resolutions are also passed outside meetings in accordance with the rules of business procedure. The Executive Board has a quorum when all members have been invited and at least half of the members are present. The Executive Board passes resolutions by way of a simple majority of the votes cast in meetings and, outside meetings, by a simple majority of its members.

The Executive Board informs the Supervisory Board regularly and extensively within an appropriate timeframe about all issues relating to strategy, planning, business trends, the risk position, risk management, and compliance, in other words, adherence to laws and defined codes of conduct. The Supervisory Board is informed immediately in the event of important occurrences that could exert a major impact on the company. Significant measures require approval by the Supervisory Board in accordance with the details set out in the rules of business procedure.

The Executive Board is responsible for ensuring that the statutory provisions and rules and guidelines valid within the company are adhered to, both within the company and the Group. To this end, as well as with a view to observing and disseminating high ethical standards at Phoenix Solar, a standard compliance organisation that is binding on the entire Group is in force. The compliance organisation reflects the Group's current positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It has been approved by the Executive Board and managers, and communicated to employees.

The Executive Board has not formed any committees.

The Supervisory Board, which consists of three members, supervises and advises the Executive Board in the management of the company. The Supervisory Board has established a set of rules of business procedure as the basis for collaboration. The Supervisory Board coordinates the strategy developed by the Executive Board, and is informed about the status of strategy implementation, the financial and investment planning for the next financial year, and medium-term planning. Outside the regular meetings, the Supervisory Board Chair engages in ongoing dialogue with the Chief Executive Officer on issues of strategy, business trends and development, the risk position, risk management and compliance.

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

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

JOINT DECLARATION OF CONFORMITY OF MARCH 25TH, 2015

The Executive and Supervisory boards of Phoenix Solar AG declare that, since the last declaration of conformity on March 26th, 2014, the recommendations of the "Government Commission German Corporate Governance Code" – in each case with the following exceptions – in the version of May 13th, 2013 (published in the German Federal Gazette [Bundesanzeiger] on June 10th, 2013) have been complied with, and will continue to be complied with in the future in the version of June 24th, 2014 (published in the German Federal Gazette on September 30th, 2014):

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

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

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

The Supervisory Board sets targets for its composition, and publishes these targets and their implementation status in the corporate governance report. Given the board's size, however, such targets do not include setting given diversity criteria ratios.

Sulzemoos, March 25th, 2015
Phoenix Solar Aktiengesellschaft

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

For the Supervisory Board
J. Michael Fischl
(Chairman of the Supervisory Board)

PHOENIX SONNENAKTIE®

STOCK MARKET ENVIRONMENT

At the end of an eventful year on the stock exchanges, German indices were left with a mere increase of between one and three percent despite having peaked at new new record highs. Only the TecDAX which reported an increase of around 17 percent for the year formed an exception. As before, the main driver of the sustained demand for equities was the expansive monetary policy pursued by the central banks. The Phoenix SonnenAktie® (share of Phoenix Solar AG) was, however, unable to track this market uptrend: The unexpectedly weak development of Phoenix Solar's consolidated sales drove the share price down over the course of the year.

The beginning of the year saw the upswing on most international stock markets initially falter. The announcement by the US Federal Reserve of gradually tightening its relaxed monetary policy, as well as the flareup of the crisis in Ukraine and its possible consequences for politics on a global scale, impacted the generally reticent sentiment of capital market participants. By contrast, the second quarter brought another strong uptrend, despite growing tension in the Middle East, during which the DAX as Germany's leading indices climbed to a new record high of more than 10,000 points.

In the third quarter, however, clear signs of a significant correction emerged: growing fears about the economy, exacerbated among other factors by the bilateral sanctions imposed by Russia and the European Union, the rise of Islamic terrorist groups in Iraq and Syria, and the clashes between the government and demonstrators in Hong Kong fuelled uncertainty, causing share prices to decline across the board. By mid-October, however, the low point reached for the year marked a turnaround which was followed by share prices rising through to the end of the year and beyond.

This also applied to Germany's leading indices. Following a new record high, the DAX swiftly lost ground and tested the 9,000 support level at the start of August again. After a race to recover lost ground to around the 9,800 mark, concerns about the dampening economy in Germany and the international situation prevailed. The DAX closed on September 30th at 9,474 and then fell to its annual low of 8,572 in the first half of October. Subsequently, however, the tide turned: The rally, which set in at the start of December, drove the DAX to another record high. Although the index closed at 9,806 points at year-end, the recent price increases seen since the start of the year indicate a steady and strong interest in German blue chips. The MDAX and SDAX largely mirrored these developments.

Having initially peaked at 1,337 points on June 19th, the TecDAX repeated this level again at the start of July, after which it lost ground. It closed the third quarter at 1,249 points and then continued its downtrend in October, similar to the other indices. By mid-month, the TecDAX had also shed all gains since the start of the year but subsequently reported another rally which saw it outperform the other indices, driven first and foremost by several more heavyweight high-tech and biotech shares. It reached its annual high of 1,381 points at the start of December and closed the year at 1,373 points.

The Photovoltaik Global 30 as the sector's index was unable to sustain its positive development in 2013 against the backdrop of ongoing consolidation in the sector and displayed high volatility over the course of the year. Having opened the year at EUR 30.48, it had reached EUR 40.08 at the start of March, the highest level seen for thirty months. Subsequently, however, it rapidly surrendered its price gains and, having fallen to lows of EUR 29 and EUR 28, reached new peaks of EUR 35 in mid-June and EUR 34 at the start of September, only to slip to an annual low of EUR 20.36 by mid-December. It closed at EUR 22.93 on December 31st, 2014, which corresponds to a price decline of 24.6 percent compared with the start of the year.

SHARE PRICE PERFORMANCE

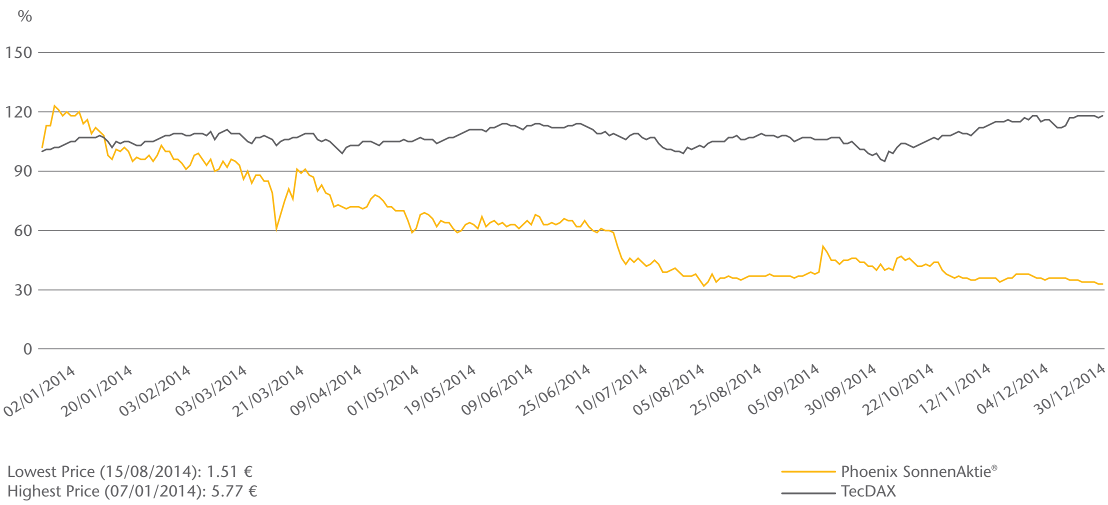
In the first six months of the current year, the Phoenix SonnenAktie® had already shed some of the gains generated in the second half of 2013. Profit taking, on the one hand, and disappointment at our profit warning released on August 6th due to the lack of new major contracts, on the other, caused a number of investors to sell their shares in the second half of the year as well. The reform of the German Renewable Energies Act (EEG) under which the German government imposed tight restrictions on installed solar PV capacity, accompanied by further reports by some firms on difficulties, fanned investors' concerns about the prospects of German solar companies overall.

Starting from its closing price in the stock market year 2013 (EUR 4.70), the Phoenix SonnenAktie® quickly reached its annual peak of EUR 5.77 but came under considerable pressure at the end of the first quarter when a shareholder rapidly liquidated large holdings. The share lost 22.2 percent of its value on March 24th and emerged from trading at EUR 3.39 at the end of the quarter. From the end of May onwards, the share moved sideways within a range of between EUR 2.80 and EUR 3.20. July saw it under renewed pressure and, one and a half weeks after the profit warning of August 6th, it fell to its lowest level for the year of EUR 1.51.

The share price recovered somewhat only at the end of September at the news of a major order in the USA and closed on September 30th, 2014 at EUR 2.12. Following the end of the third quarter, the Phoenix SonnenAktie® was unable to decouple from the partly sharp corrections in the capital market overall. In November, we released another profit warning though we were also able to report that we had secured financing with our banking syndicate through to the end of 2016. The share price slipped further through to the end of the year, closing at EUR 1.55 on December 30th, 2014, close to its lowest level.

It recovered slightly again at the start of 2015. By the time this report went to print on March 19th, 2015, the Phoenix SonnenAktie® stood at EUR 1.77.

Price performance of the Phoenix SonnenAktie® versus the TecDAX (01/01/ – 31/12/2014)



Aside from the stock market development in general and the solar sector in particular, the future share price performance will largely depend on the news released by Phoenix Solar AG.

We continue to view stepping up our capital market communication as one of our key tasks to flank the anticipated upturn in business and progress made with our turnaround. This will involve putting the interest of capital market participants in the Phoenix SonnenAktie® on a broader footing again and fostering the understanding that Phoenix Solar AG has embarked on its own special path within the solar industry, with its financing basis secured through to September 2016, along with its focus on international growth regions and new business models, and that it is working on consistently using the opportunities arising on the path towards profitable growth.

The market capitalisation of Phoenix Solar AG stood at EUR 11.4 million on December 31st, 2013 (December 31st, 2013: EUR 34.7 million). In terms of its trading volume (XETRA), the share's daily turnover averaged around 32,000 units in the financial year 2014 (2013: around 55,900 units).

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The sixteenth regular Annual General Meeting of the shareholders of Phoenix Solar AG took place on May 28th, 2014 in Fuerstenfeldbruck. All items on the agenda were approved with majorities of more than 90 percent. Presence during the casting of votes came to around 4.41 percent of the voting share capital of EUR 7,372,700. Owing to the losses incurred, no dividend was paid for the financial year 2013.

The company will not be paying dividend for the financial year 2014 either for the same reason. A return to the investor-oriented dividend policy practised in previous years will depend on how the company's business develops in the coming years.

SHAREHOLDER STRUCTURE

At present, no shareholders who hold more than 3 percent of the shares in Phoenix Solar AG are known. As of December 31st, 2014, the Executive Board and the Supervisory Board held 1.07 percent of the shares. According to the definition of Deutsche Börse AG 100 percent of the shares in Phoenix Solar AG are in free float.

INVESTOR RELATIONS

The financial year 2014 was characterised by delays in incoming orders. Whereas, in the first five months, three road shows were held in Frankfurt for institutional investors and analysts and one in the United Arab Emirates, the capital market's interest in our share subsequently waned.

The Chief Executive Officer gave presentations on the company at the Equity Forum of Deutsche Börse AG and at the Munich Capital Market Conference in November and December. At both events, the presentations were supplemented by a number of one-on-one meetings.

The company's Financial Calendar 2015 has been posted on its website under the " nvestor Relations" heading and is regularly updated. A current version has been included on page 146 of this report.

ANALYST COVERAGE

In the financial year 2014 as well, only one analyst reported regularly on the Phoenix Sonnenaktie®. On November 4th, 2014, Close Brothers Seydler published an update with a "hold" rating and a share price target of EUR 2.15.

Key Figures

		Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014	2013
Number of shares[1]	Units	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700
Market capitalisation[1]	€	31,702,610	22,781,643	15,637,497	11,435,058	11,435,058	34,651,690
Closing price (Xetra)	€	4.30	3.09	2.12	1.55	1.55	4.70
Highest price	€	5.77	4.30	3.07	2.20	5.77	6.50
Lowest price	€	2.88	2.76	1.51	1.55	1.51	1.04
Trading volume	Units	4,122,549	1,593,111	1,851,964	655,873	8,260,011	14,079,770
	€	18,114,176	5,210,933	3,873,170	1,198,576	28,550,607	51,140,828
Earnings per share[4]	€[2]	– 0.49	– 0.86	– 1.40	– 1.38	– 1.38	– 1.45
	€[3]	– 0.49	– 0.86	– 1.40	– 1.38	– 1.38	– 1.45

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

Share fact sheet

International Securities Identification Number (ISIN)	DE000A0BVU93
Securities identification number (sec. ident. no.)	A0BVU9
Symbol	PS4
Class of shares	No-par bearer shares
Number of shares as per 31/12/2014	7,372,700 units
Share capital on 31/12/2014	€ 7,372,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	XETRA, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin, Düsseldorf, Hamburg, Hanover
Sector/sub-sector	Industrial Products & Services/Renewable Energies
Indices	CDAX, Prime All Share, Technology All Share, various sector and sub-sector indices of Deutsche Börse AG
End of the financial year	December 31th
Accounting standards	IFRS
Commencement of stock market listing	18/11/2004
Designated Sponsor	Close Brothers Seydler AG

GROUP MANAGE-MENT REPORT

FOR THE FINANCIAL YEAR FROM JANUARY 1st TO DECEMBER 31ST, 2014

1 EVENTS AND RESULTS IN THE FINANCIAL YEAR 2014

While our first-quarter consolidated revenues still lay within the scope of our expectations, it became apparent during the further course of the year that planned and announced larger orders in the USA and Asia were being postponed, or that some of them were even being cancelled entirely. Due to the unsatisfactory new order intake during the second quarter, we reduced our basis forecast for the full financial year by way of an unscheduled announcement published on August 6th, 2014. At that time, we assumed that the Group would report a revenue decline of approximately 35 to 50 percent in the 2014 financial year compared to 2013.

During the course of the third quarter, our subsidiaries succeeded in winning not only ongoing business consisting of distribution components, but also major orders again. Among other news, on September 25th, 2014 we reported an order to construct a solar power plant in North Carolina with a rated output of 32.1 MWp. As most of these orders will not become effective in terms of sales revenue until during the current 2015 financial year, however, we were required to implement a further downgrade to our forecast through an ad hoc announcement on November 4th, 2014, although we were already receiving further orders in the low and medium single-digit MWp range during the course of the fourth quarter.

In other words, although almost all of the planned major orders failed to materialise over the course of year, we lost out in bids to competitors to only a slight extent. Instead, a significant number of projects which we had been working as the likely planners and general contractors had not yet even been awarded as of the year-end. We attribute this delay primarily to extended project development periods. During the course of constructing a power plant, our service is ordered at the time when the project development stage – spanning securing the plot of land, financing, and electricity sales agreements – has already largely been concluded. The average periods required for this development phase were underestimated in the 2014 planning process. A further, particular factor for the subsidiary in the USA is that the processing of major orders from 2013 tied up a lot of capacity. For this reason, we were unable to complete the establishment of our own sales team as quickly as would have been required. For these and other, different reasons, the new order intake that was originally planned for around the mid-year stage was delayed until the second half of the year and beyond.

OVERVIEW OF REVENUES AND EARNINGS

Phoenix Solar AG generated EUR 33.8 million of revenues in the 2014 financial year, reflecting a fall of 76.1 percent compared with the 2013 financial year (EUR 141.2 million). The 2013 financial year still included revenue from the now closed project and trading business in Germany, as well as – to a considerable extent – from large-scale projects in Thailand and the USA. Excluding the revenues and earnings from the operating and maintenance services business in Germany that we have now divested, we generated EUR 29.7 million of revenues from continuing operations (2013: EUR 136.1 million).

The loss before interest and taxes (EBIT) also widened. At EUR - 4.6 million, EBIT was EUR 3.2 million below that for the 2013 financial year (EBIT 2013: EUR - 1.4 million). EBIT from continuing operations stood at EUR - 10.5 million (2013: EUR - 2.3 million).

The consolidated net result for the period attributable to shareholders stood at EUR - 10.2 million (2013: EUR - 10.7 million). The loss per share reduced to EUR 1.38 (2013: EUR 1.45). Continuing operations generated a consolidated net loss of EUR - 14.5 million that is attributable to shareholders (2013: EUR - 11.4 million). This corresponds to a loss per share of EUR 1.96 (2013: EUR - 1.54).

DISPOSAL OF THE EUROPEAN O&M BUSINESS

With an agreement dated August 6th, 2014, Phoenix Solar AG sold its Operation & Maintenance (O&M) activities in Europe to SMA Solar Technology AG. Confidentiality was agreed concerning the contents of the agreement. The agreement became effective and was implemented at the end of October. The disposal proceeds were utilised to repay debt and strengthen the core operating business.

The possibility of a sale had been considered since the end of 2013. Over the course of 2013, the company examined the extent to which this business area could retain its significance within the further development of the strategy of Phoenix Solar AG. Three aspects prompted considerations to sell this business: the discontinuation in the first quarter 2013 of the project business that was operated from Germany and the resultant lack of growth in new business for the O&M area, a decline in growth in the construction of large-scale photovoltaic power plants by the European subsidiaries, and a lack of synergies with the O&M activities at the subsidiaries in Asia and the USA. The good profitability of these operations suggested that they could be transferred successfully to another market participant. They exhibit a high level of stability due to a contractual base comprising some long contractual durations, as well as a motivated team of staff that ensures that the operating activities function extremely well. The O&M activities that are independently managed by subsidiaries, especially in the USA and Asia, are unaffected by the sale. Instead, it is more likely that their O&M business will be expanded as part of EPC projects that are to be realised in the future.

CHANGES TO THE LEGAL STRUCTURE OF THE GROUP

In January 2014, the subsidiary in the USA was transferred to Phoenix Solar America GmbH, a newly founded intermediate holding company. Besides structural aspects, this measure was aimed at leveraging valuation reserves, thereby strengthening the equity base of Phoenix Solar AG. As of December 31st, 2014, the equity of Phoenix Solar AG (according to German Commercial Code [HGB] accounting) amounts to EUR 11.0 million, which corresponds to a 20.0 percent equity ratio.

Given the background of unfavourable business and political conditions locally, and given the negative outlook for our subsidiary in Italy in the foreseeable future, an application was submitted on March 12th, 2014 to launch insolvency proceedings. As a result, operating activities in Italy have ceased completely. This measure did not have any material impact on the Group's financial position and performance.

EXTENSION OF GROUP FINANCING

On November 4th, 2014, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30th, 2016. The new financing facility comprises a volume totalling around EUR 116 million, and consists of a syndicated loan of almost EUR 93 million, as well as other bilateral cash and guarantee credit lines. These lines were reduced to a level of EUR 113.0 million as of December 31st, 2014.

Of the committed cash credit lines, EUR 7.1 million were available as of December 31st, 2014 (December 31st, 2013: EUR 8.7 million), and a further EUR 10.6 million were available for short-term requirements (December 31st, 2013: EUR 11.0 million). The line for short-term requirements was adjusted proportionally to the total lending volumes that had been reduced overall.

In the context of the revised corporate planning, a decision was also taken to end the pilot phase of implementing new business models in the residential homes area in Germany, and to discontinue this activity without creating a replacement for it. This measure has already been implemented.

CHANGES WITHIN THE EXECUTIVE BOARD

When the financing facility was agreed, we also announced that Chief Executive Officer Dr. Bernd Köhler would not extend his contract that expired on December 31st, 2014. As the company's restructuring and reorientation – with a focus on international project business – has been concluded, and its financing is secured until September 30th, 2016, Dr. Köhler, who specialises in restructuring and reorganisation, decided to seek new challenges within this environment. The Supervisory Board greatly regretted this decision. They thanked Dr. Köhler for his extraordinary commitment and input over the past years within a very difficult environment, and especially for the results that have been achieved. Dr. Köhler will continue to serve the company as an occasional adviser following his departure from the Executive Board.

On December 19th, 2014, the Supervisory Board of Phoenix Solar AG appointed Tim P. Ryan as new member of the company's Executive Board with effect as of January 1st, 2015, appointing it as its new Chief Executive Officer. Manfred Hochleitner, who was also appointed to be a new Executive Board member, was appointed Chief Financial Officer on the same date.

2 EVENTS AFTER THE REPORTING DATE

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

Sales activities, which were intensified further, especially in the USA, fed through to notable successes in January and February 2015. Overall, project orders with a total scope of more than 28 MWp were acquired in quick succession. Significant portions of the planned Group sales revenue for the full 2015 year have thereby already been contractually secured through orders during the course of the first quarter.

3 BASIS OF THE GROUP

3.1 LEGAL STRUCTURE

Phoenix Solar is an internationally operating photovoltaic system integrator. The parent company, Phoenix Solar AG, was formed on November 18th, 1999, and was registered in the commercial register of Munich District Court under record no. 129117 on January 7th, 2000. As of December 31st, 2014, nine subsidiaries and 11 project companies were subordinated to the parent company, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

The business headquarters of Phoenix Solar AG are located at Sulzemoos near Munich, Germany. The central departments were managed from this location in the 2014 financial year.

Chief Executive Officer Dr. Bernd Köhler headed up the Executive Board areas of Corporate Strategy & Business Development, Marketing and Public Relations, and Quality Management, as well as also holding the position of Chief Financial Officer. In this context, he was also responsible for Finance, Personnel & Organisational Development, International Process & IT Management, Controlling & Internal Audit, Investor Relations and Legal & Compliance as well as Purchasing and Logistics. Dr. Murray Cameron headed up business activities in Southeast Asia and in the USA. He combined the positions of Chief Executive Officer and President of the US subsidiary. Olaf Laber managed the subsidiaries in Europe and the Middle East, and was particularly responsible for establishing new business models in Germany. This latter area of activities could not be continued as planned due to business trends and the Group's results, and was discontinued during the fourth quarter of 2014.

With the new appointments to the Executive Board as of January 1st, 2015, its areas of responsibility were also reorganised. Chief Executive Officer Tim P. Ryan heads up the areas of Strategy, Business Development, Sales and Corporate Communications, as well as business in the regions of the USA, Asia Pacific and the Middle East. During the course of the first quarter, he also assumed direct management of the subsidiary in the USA as President and Chief Executive Officer of Phoenix Solar, Inc. Chief Financial Officer Manfred Hochleitner is responsible for the areas of Finance and Administration, Internal Audit, Legal and Compliance, as well as Investor Relations. Our European subsidiaries also report to him. Dr. Murray Cameron is responsible for Business Support International.

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

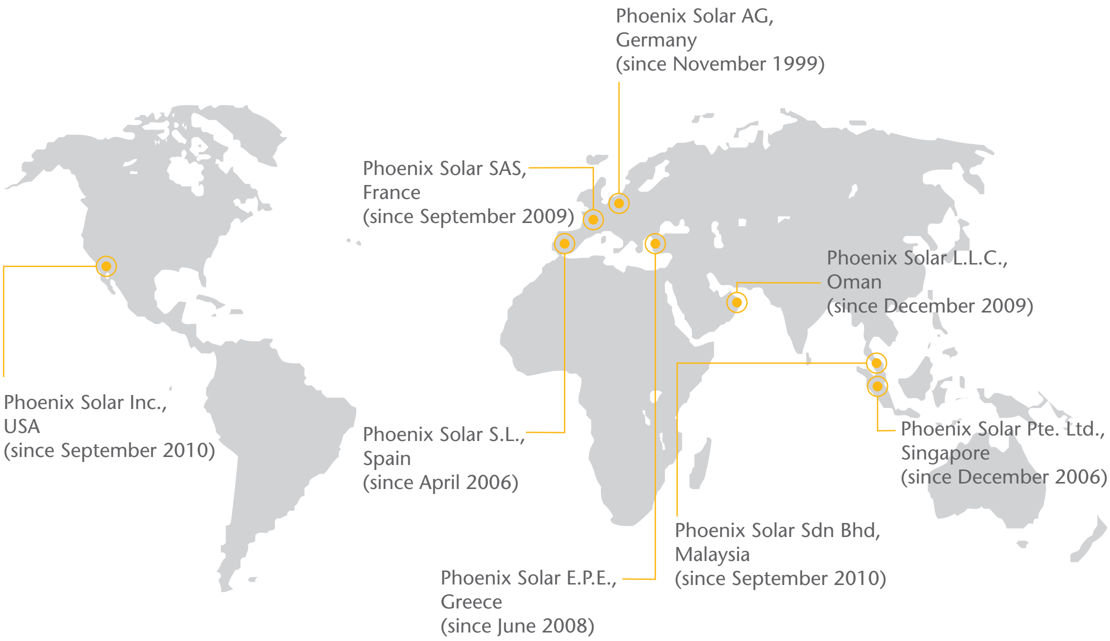
3.2 LOCATIONS

Phoenix Solar AG maintains an active presence in key photovoltaic markets through its subsidiaries and representative offices, and offers its products and services worldwide. Phoenix Solar AG was present on three continents through its operating subsidiaries during the 2014 financial year. In Europe, it operated in Germany, France, Spain and Greece, with the operating subsidiary in Italy having been closed during course of the first quarter. The operations that had been based in Ulm, Germany, and which had provided operating and maintenance (O&M) services to photovoltaic power plants in Europe, were sold to SMA Technologie AG in the third quarter of the financial year under review.

The remaining operations in Germany, in other words, the marketing of rooftop systems that are optimised for proprietary consumption, were discontinued during the fourth quarter of the 2014 financial year. For the last eight years, the subsidiary in Singapore has served the fast-growing markets of Southeast Asia (including the Philippines and Thailand, for example), and coordinated the Group's business in that region.

Along with the Group headquarters in Sulzemoos near Munich, which now covers only the holding functions of Phoenix Solar AG, the Group's main locations have since then been located in San Ramon (California, USA), in Singapore, in Muscat (Oman), in Lyon (France), in Athens (Greece), in San Sebastián (Spain), and in Kuala Lumpur (Malaysia).

Company locations (as of December 31st, 2014)



3.3 BUSINESS SEGMENTS AND BUSINESS MODELS

As a globally operating photovoltaic system integrator, Phoenix Solar plans, builds and operates large photovoltaic power plants. To a lesser extent, it is also a specialised wholesaler of complete solar power systems, solar modules and accessories. This orientation is reflected in the operations of the Power Plants and Components & Systems segments. This division of business is also generally replicated in the subsidiaries, subject to local adjustments. The US subsidiary has been active only in the project business to date, for instance.

In addition to supplying individual components for photovoltaic plants, the Components & Systems segment also develops tailored system solutions, provides planning support, and offers logistics and other services. This segment's customers include resellers and installation companies. In this classic wholesale model, we purchase parts, components and systems within the respective subsidiary, and then forward them to the ordering customer against invoicing. Income from this business arises from the respective achievable trading margin, as well as related services.

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

The actual construction order is not issued until this part has been largely concluded. A general contractor generally takes responsibility for this part of the project, referred to within the sector as EPC (Engineering, Purchasing and Construction). This is the area in which Phoenix Solar specialises. Our range of products and services includes the requisite planning services, the purchasing of the required components in close coordination with customers, and turnkey construction of the complete photovoltaic plant. In this context, we prioritise detailed execution planning that is oriented to high plant profitability, and the agreement of defined step payments by the client depending on progress of construction.

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

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

We supplement this range of products and services through other services, particularly in the USA. We also support our customers in the coordination, securing and realisation of the necessary financing, as well as in dealing with complex formal approval procedures. We have qualified and experienced employees at hand for these services, too. This can enable us to already participate in individual parts of project development, thereby improving our position in relation to any subsequent awarding of a construction order. In such service offers, we can highlight our many years of experience, the fact that we deliver on budget and on time almost without exception, and consequently our very good references. In other words, from the Group's perspective, the sales function is particularly important to our business success.

Besides private individuals, the Power Plants segment's customers include energy utility companies, and small and large companies from trade, industry and commerce. Other target customers include institutional investors that are setting up investment fund models, or that hold large-scale photovoltaic plants in their own portfolios.

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

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

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

The Phoenix Solar Group offers a very broad-based product portfolio for photovoltaic systems of every size class. This allows us to address our customers' needs on a flexible and individual basis. Our range of products comprises, in particular, solar modules based on various technologies. Phoenix Solar was consequently not dependent on a specific module technology, but was instead able to offer photovoltaic systems oriented to factoring in customer requirements and market developments.

Until divested, a service offered by Phoenix Solar AG comprised the operation and maintenance of Photovoltaic power plants, a business which was headquartered in Ulm (Operation & Maintenance, O&M). The O&M central function ensured seamless operation geared to maximising the return of power plants worldwide with an output of more than 200 MWp. O&M activities remain within the subsidiaries, by contrast, and are even to be expanded from them in the future.

The business models and offerings that were set up in Germany 2014, whereby customers realise great benefits from investing in photovoltaics without the need to make recourse to feed-in tariffs or other supportive measures, were not taken up to a sufficient extent during the pilot phase. General Group business trends also rendered it impossible to continue with establishing this new area. It was discontinued during the fourth quarter of the 2014 financial year as a consequence. The related measures have been implemented.

3.4 EMPLOYEES

During the course of 2014 financial year, the workforce of Phoenix Solar AG and the Group (excluding Executive Board members, but including temporary staff) was reduced from 120 to 96 employees. An annual average of 110 full-time equivalents were employed (excluding Executive Board members but including temporary staff/2013: 147). This further decline was mainly due to the disposal of the O&M activities at the Ulm site. The number of employees decreased further at the end of the financial year under review with the departure of the employees who had worked on setting up new business models in Germany. Personnel reduction was implemented on the basis of a settlement of interests and a redundancy plan agreed with employee representatives.

The ratio between employees at our international subsidiaries and total Group employees rose further over the course of the year. As of December 31st, 2014, around 68 percent of all employees were employed at our subsidiaries (December 31st, 2013: around 59 percent).

In the 2014 financial year, employees from 18 nations and all age groups, and from a wide variety of backgrounds, were employed at Phoenix Solar AG Group. Of the workforce, 33.7 percent (excluding Executive Board members, trainees and temporary staff) comprised women (2013: 33.1 percent). At the end of the 2014 financial year, the share of women holding second-level management positions stood at around 39 percent.

4 GENERAL CONDITIONS

In each of our individual markets, demand for our services depends to a great extent on whether private individuals and entities, the public sector, and private companies are prepared to invest in photovoltaic systems. Such preparedness inevitably also entails a political-ethical dimension. The desire to make a contribution to protecting the environment and resources by utilising renewable energies forms a widespread motive. No reliable data are available about the characteristics of such desires and motives, and the influencing factors behind the activities that are undertaken, however.

Maintaining secure, affordable and sustainable electricity supplies for a growing global population, or even just establishing such supplies in the first instance, can be generally regarded as one of the major challenges confronting the world. A total of around 1.3 billion individuals currently have no access to electrical energy, according to data from the International Energy Agency. Subsidies promoting electricity generation continued to climb in 2013. Electricity generated from fossil fuels was subsidised to the tune of almost EUR 550 billion worldwide , compared with just EUR 120 billion that governments invested in promoting the expansion of renewable energies.

Global demand for electrical energy doubled over the period from 1990 to 2012, and continues to rise. Depending on factors of influence such as greater energy efficiency, policy-led energy savings measures, or technical progress, demand is set to grow from around 22,700 terawatt hours (TWh) in 2012 to between approximately 35,000 TWh and 44,000 TWh by 2040. The share of renewable energies in generating this volume is set to increase from currently around 20 percent to 33 percent by 2040.

Photovoltaics brings its benefits to bear in satisfying this growing demand: solar electricity is climate neutral and can be generated locally, including in small units with minimal input. Photovoltaics capacity will increase almost sevenfold from 136 GWp in 2013 to 930 GWp by 2040, then contributing around 3.2 percent of the output required for global electricity consumption, at around 1,290 TWh in the most probable scenario contained in the World Energy Outlook 2014, and its contribution will then amount to even as much as 15 percent when calculated as peak generation’s share of peak demand.

Whereas economic considerations of the costs and benefits of integrating renewable energies into energy supply systems are increasingly influencing actions taken at policymaking level, direct financial and economic considerations form the focus for private individuals.

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

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

The International Energy Agency believes the electricity price trends will continue to be closely correlated with fossil fuel prices. It consequently sees electricity prices rising further worldwide. It could take around ten years before the price level stabilises in many countries, or even falls slightly again.

4.1 PURCHASING MARKETS AND PRICE TRENDS

Following sharp declines in 2011 and 2012, the prices of solar modules largely stabilised in 2013. Over the course of 2014, prices fluctuated in a range between 0.60 and 0.70 USD/W. For example, Chinese polycrystalline modules averaged around 0.52 EUR/Wp in early January 2015 in Germany (spot market prices) (mid-August 2014: 0.61 EUR/Wp; January 2013: 0.52 EUR/Wp), and European polycrystalline modules averaged around 0.51 EUR/Wp (end-2013: 0.69 EUR/Wp) . Market observers do not anticipate any significant moves up or down within a certain fluctuation range for the foreseeable future. On the basis of this module price level, it can consequently be assumed that photovoltaic plant construction will remain possible at costs that make their operation viable before taxes and levies.

As far as different module technologies are concerned, thin-film modules continued to lose market shares in 2014. The Phoenix Solar Group has meanwhile fully focused its portfolio on crystalline modules. As we decentralised purchasing at an early stage, the international subsidiaries outside Europe remained unaffected by the purchasing situation within the European Union (EU) and were able to secure a supply of modules on stable terms.

As part of realigning business in Germany, Phoenix Solar relied on a smaller group of brand manufacturer suppliers with a good track record. In operational handling, we took external service providers under contract that were able to offer specialised services for the new sales concept in the areas of contract implementation and logistics. Following the discontinuation of the pilot phase for the new business models, the role of purchasing for the business success and profitability of Phoenix Solar AG has declined further.
The market environment in 2014, especially in the USA, was influenced by political debate about anti-dumping proceedings brought against Chinese import modules. Further cuts to feed-in tariffs or constraints on other funding instruments have placed a further damper on demand for photovoltaic systems. Whereas the significance of the EU area as formerly the largest sales market for Chinese manufacturers has waned, their sales markets within China, as well as on other international markets such as the USA and Japan, have registered growth. Consequently, module pricing has developed in line with specific regional factors.

4.2 SALES MARKETS

4.2.1 USA

The USA is one of our most important sales markets. We generated around 38 percent of our consolidated revenues there in 2013 (EUR 53.8 million), and, following the plunge in sales to EUR 7 million in 2014, we expect a resumption of growth, both absolute and relative, for the subsequent years. The USA is developing from a major energy importer to an exporter of coal, oil and gas. Thanks to the discovery of new natural gas reserves, and a subsequent fall in gas prices, gas is currently displacing coal in energy production. This trend is nevertheless being countered by the current sharp decline in oil prices, as well as ecological considerations. Examples include New York State's December 2014 ban on fracking.

Energy markets are largely deregulated, and structured as free markets. Some US federal government regulation is in place, while considerable legislative differences still exist at individual state level.

Specifically, however, a high degree of legal and planning certainty can be assumed. Under the Obama Administration, the USA has made a return to greater involvement in international discussion about climate protection targets, setting up various measures to promote renewable energies, and consequently also solar technology, at both federal and individual state level. Such measures include mainly tax relief at fed-eral level (Investment Tax Credit, ITC), with its extension beyond the previous 2016 end-date having now been announced by the US government. Many states have imposed quotas on energy supply companies, regulating how much electricity they must provide from renewable sources in the future. Utilities are seeking to meet these requirements by operating their own power plants, or by sourcing solar electricity from direct sellers. These structures, as well as the surface area available, have encouraged the construct-ion of very large ground-mounted power plants. At the same time, the number and accumulated output of newly installed mid-sized and smaller systems is growing significantly, however.

A further argument for the utilisation of photovoltaics lies in the uninterrupted rise in electricity prices. Average electricity prices for companies and private households in the USA have risen by around 39 and 44 percent respectively over the 2003 to 2013 period. For this reason, we are assuming that own consumption solutions will also encounter a growth market there.

Overall, we expect a newly installed output of more than 8 gigawatt peak (GWp) in 2015 and further growth of almost 50 percent to more than 10 GWp worth of installed capacity in 2016.

4.2.2 SOUTHEAST ASIA

We generated around 33 percent of our consolidated revenues in the regions of Southeast Asia and the Middle East in 2014, which are served by our subsidiaries in Singapore, Malaysia and Oman. In this context, we encounter very differing conditions in the individual countries that we serve.

In Singapore and most Southeast Asian states, electricity is generated conventionally almost exclusively through the burning of oil and gas, with some fossil fuel energy source utilisation enjoying strong subsidies and support. Electricity customers whose electricity prices are comparatively low, albeit with considerable regional differences, including within individual countries, also reap the related benefits. In Thailand, for instance, prices were below 0.10 €/kWh in 2013. Industrial customers on the main Philippine islands also paid less than 0.10 €/kWh, compared with prices of 0.56 €/kWh on some other Philippine islands.

Many countries in the region have meanwhile announced ambitious expansion targets for renewable energies, and launched corresponding subsidy programmes. The Philippines, for example, aim to treble solar electricity capacity to 15.3 GWp over the 2010 to 2030 period. They can also advance supplies of electricity to remote areas through expanding solar power. Only around 70 percent of the country currently has access to electricity. Alongside a feed-in tariff, funding takes the form of tax relief, subsidised loans, and the promoting of own consumption from off-grid systems by making subsidies available, as well as a net metering model for grid-connected systems since July 2014.

Singapore is seeing a growing shift toward the leasing of rooftop systems. In order to tap this market trend, our Singapore subsidiary is expanding its network to include further financing partners.

For its part, Thailand plans to bring photovoltaic systems with nominal output of around 1 GWp onto the grid in 2015, and has boosted its expansion targets to between 4.5 and 5 GWp by 2024. Mechanisms deployed here also include feed-in tariffs and subsidised loans, ultimately also with a view to giving rural regions better access to electricity supplies. The upheaval in 2014 hampered the development of new photovoltaic projects. It seems foreseeable, however, that the new military government will support this sector again in the future.

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

4.2.3 MIDDLE EAST

The Gulf region states – former core OPEC countries and major power brokers in global energy markets – have lost influence in tandem with the pace at which new extraction regions and technologies have been developed outside their domain of influence. At the same time, awareness is growing in the region that their own resources are finite, and that new business models must be developed. In order to accommodate rising local electricity consumption while maintaining high oil and gas export quotas, most countries in the region have opted to expand renewable energies, and are planning corresponding large-scale power plant projects. Demand here largely derives from the public sector as a consequence. Actual implementation is considerably hampered by high administrative hurdles and protracted approval procedures, however. With the commissioning of KAPSARC I and the construction of KAPSARC II, we were proud to have built Saudi Arabia’s largest ground-mounted power plants to date. In Jordan, too, we have constructed a first photovoltaic power plant. We are strengthening our anchoring within the region as a result of the cooperation venture with Millennium Energy Industries that we concluded in autumn 2014, and we are working on leveraging our business potentials within the region, and on expanding them continuously.

Given this, we anticipate newly installed capacity of 3.7 GWp in 2015 and further growth of almost 30 percent to 4.8 GWp in 2016 in the countries we serve in the regions of Southeast Asia/the Middle East.

4.2.4 EUROPE

The situation in all European markets is characterised by pronounced instability and legal uncertainty in the face of the ongoing sovereign debt crisis and the resultant endeavours of the various governments to consolidate. In the European countries addressed by our subsidiaries demand has long been driven by government-backed measures. Satisfactory feed-in tariffs were granted in the main. These tariffs were abolished in many instances, with existing power plants being subsequently and partly retrospectively charged with taxes and levies, however.

In addition, loans granted to companies and private households are also in decline despite the low interest rate level. This trend even steadily accelerated over the course of 2014, making it increasingly difficult for potential investors to borrow funds.

The combination of these factors has led to considerable uncertainty for potential buyers and investors and resulted in the photovoltaic market drying up completely in some countries. The previous years' trend continued as a consequence. Compared with a total of around 22 GWp newly installed in 2011, this figure fell to around 17 GWp in 2012, and to around 11 GWp in 2013. Phoenix Solar's European business contributed just EUR 12.7 million to consolidated revenue in 2014, compared with EUR 33.2 million in 2013.

Italy: At this juncture, we already referred last year to the high administrative hurdles at regional level. The entire business arena in Italy is hampered by a comparatively high level of uncertainty reflecting bureaucratic shortcomings and political factors that are difficult to predict. In addition, project financing was, and remains, problematic, as banks require commitment in the form of collateral or upfront private financing from planners and developers. Owing to these particularly unfavourable business and political conditions in Italy, the business of our local subsidiary increasingly lost momentum as 2013 progressed and came under growing pressure toward the end of 2013. Given this, all of the circumstances in options were weighed up carefully together with the subsidiary's management, and finally an application was submitted on March 12th, 2014 to launch insolvency proceedings. Operating activities in Italy have been discontinued entirely as a consequence.

Spain: At the start of 2014, the Spanish government introduced another a reduction to the return from photovoltaic plants. Ongoing changes to general conditions, the lack of regulations governing own consumption, and significant hurdles in grid connection – compounded by other ponderous administrative processes – have severely hampered the development and growth of Spain's photovoltaic market.

Photovoltaic accounted for a 3.1 percent share of national electricity supplies in 2014, according to data from Spanish grid operator Red Eléctrica de España. Electricity's share consequently remained unchanged year-on-year. Total photovoltaic output installed in Spain amounts to 4.67 gigawatts, although only 7 megawatts of this total were newly installed last year. Overall, renewable energies comprise a 42.8 percent share of electricity supplies.

Introducing suitable net metering legislation could provide new impetus. We are retaining our small presence in Spain in order to exploit a potential market recovery. The indications are very positive, as an act to make the Spanish islands independent of electricity supplies from the mainland was put in train at the end of 2014. This would open up new opportunities for our Spanish subsidiary.

France: By contrast with Germany, nuclear energy utilisation continues to play an important role in France. Its energy market and infrastructure remain dominated by a monopolistic structure surrounding state-owned utility Electricité de France. Approximately 16 percent of electricity consumed already derives from renewable sources, however. The electricity prices paid by industrial customers stood at below 0.10 EUR/kWh in 2013/2014, and at 0.14 EUR/kWh for private households.

Environmental considerations play no insignificant role for the French government. Funding instruments for the construction of photovoltaic plants consist of a system of feed-in tariffs on a sliding scale, tax relief, and rolling depreciation of photovoltaic power plants. In 2014, the installed capacity of photovoltaic systems exceeded the 5 GWp level, with 5.1 TWh of electric energy being generated by means of photovoltaics in France in 2013 . New construction figures are nevertheless falling sharply. Feed-in tariffs have been reduced several times. The current level does not allow new systems to be operated on an economically viable basis, while charges are imposed on proprietary consumption. According to estimates from our French subsidiary, many investors are currently awaiting signals from the government that it wishes to reverse this trend.

Greece: Trends in Greece in 2014 were characterised by the increasingly difficult situation of public and private budgets to an even greater extent than in previous years. The photovoltaic sector also proved unable to match previous volumes in 2014. For this reason, and owing to difficulties in borrowing, investment activities in solar power plants have ground to a virtual halt since mid-2014.

Only 16 megawatts of photovoltaic output was newly installed over the whole of 2014 on the Greek mainland (2013: 1.09 gigawatts), according to data from Greek transmission system operator HTSO (Hellenic Transmission System Operator SA). As a consequence, the country now has a total installed and grid-connected photovoltaic output of 2.43 gigawatts. Grid-connected systems of more than 10 kWp reach a total of 2.08 gigawatts, and rooftop systems with less than 10 kWp bring the total together to 350 MWp.

The long expected and discussed net metering regulation came into force at the end of December, however. Our Greek subsidiary is orienting its sales activities to this regulation.

The 2014 annual report of the European Photovoltaic Industry Association (EPIA) predicted an installed output of around 1,085 gigawatt peak (MWp) in 2014 – taken as an average of the two scenarios it describes for the European countries we serve (Spain, France and Greece) – and growth of 12 percent to 1,214 MWp by 2015.

4.2.5 GERMANY

We had taken the decision in February 2013 to almost fully relinquish our business in Germany in its existing form. At that point we retained our operation and maintenance services in our Ulm location, as well as a team which was tasked with developing new business models independent of subsidy mechanisms under the Act on the Priority of Renewable Energy Sources (EEG).

During the course of the third quarter of the 2014 financial year, we divested the O&M activities in Ulm for strategic reasons. The O&M business there, with its focus on managing photovoltaic plants in Germany and Europe, could only have survived within the Phoenix Solar Group if it had succeeded in constantly acquiring further plants for management. The decline in our project business in this region made this seem increasingly unlikely, so that it appeared to us to be advisable to relinquish this successfully operating area to a provider with a clear focus on European O&M business.

During the financial year under review, we had begun in Germany to experiment by offering standard packages optimised for own consumption in the segment of small photovoltaic systems for households. The debate during the first half of the year about modifying the German Renewable Energies Act (EEG) nevertheless unsettled consumers considerably. In particular, plans to impose levies on self-generated and consumed electricity, which finally also materialised in modified form, brought our sales efforts to a standstill. For this reason, this new business area failed to achieve the volumes required for it to be continued, and it had to be discontinued in the fourth quarter of the year.

Phoenix Solar AG no longer conducts any business operations in Germany as a consequence.

5 MANAGEMENT AND SUPERVISION

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

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

We also make reference to the declaration of conformity by the Executive Board and the Supervisory Board pursuant to Section 161 of the German Stock Corporation Act, which is included in the corporate governance report.

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

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

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

The management of opportunities also forms a regular topic of management reviews. At such management reviews, business prospects are discussed, short- and medium-term measures to secure and improve them are determined, and their implementation is supervised.

Key financial indicators relating to the central goals of liquidity and profitability are particularly important, especially as part of the process of restructuring and strategic realignment. At the same time, only a return to growth can secure the future existence of Phoenix Solar AG. Besides the aforementioned key financial indicators, the sales-oriented steering metrics that have been listed consequently also comprise important performance indicators for the Phoenix Solar Group in its management of the company.

5.1 KEY FINANCIALS

5.1.1 REVENUES

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

5.1.2 EBITDA/EBIT

The steering metric of EBITDA shows our operating profit before interest, tax, depreciation and amortisation. EBIT also takes depreciation and amortisation into account. Both comprise central steering metrics for Phoenix Solar's business, especially at the level of the subsidiaries, as well as a regular component of management reviews.

5.1.3 EQUITY

Equity include all elements of the company's profitability up to the present, including taxes. In accounting terms, equity represents the difference between assets and liabilities. Particularly at Group level, equity plays an important role in the management and supervision of the Phoenix Solar Group.

5.1.4 UTILISATION OF THE CREDIT LINES

As part of the syndicated financing, and the extension of it that was agreed on November 4th, 2014, we were granted credit lines of around EUR 116 million. Keeping within these credit lines is crucial to the continued existence of the company. To this extent, liquidity planning and liquidity management enjoy a very high priority. For this reason, the utilisation of the credit lines is supervised and managed constantly.

5.2 SALES-ORIENTED CONTROL PARAMETERS

As part of management reviews, the following sales-oriented steering metrics, in particular, are closely monitored and updated constantly. Given the logic of these business model, these comprise rolling metrics that cannot be planned or forecast precisely on the basis of either accounting periods or reporting dates. They nevertheless form essential elements of the ongoing management and controlling process.

5.2.1 NEW ORDER INTAKE

Although a high level of sales activity forms a good basis for a return to sustainable growth, it must be followed up by success in the winning of orders in order to actually achieve such growth. For this reason, we regularly and intensively follow our key performance indicator of new order intake.

5.2.2 FURTHER SPECIFIC KEY INDICATORS

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

5.3 COMPLIANCE AND CORPORATE GOVERNANCE

Our standard compliance organisation, which is binding on the entire Group, ensures that high ethical standards are maintained and propagated at Phoenix Solar. The compliance organisation reflects the Group's positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It was approved by the Executive Board and the management, before being communicated to the employees. It was implemented comprehensively throughout the organisation during the 2014 financial year.

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

6 COMPARISON OF FORECASTED WITH ACTUAL BUSINESS PERFORMANCE

When the annual financial statements for 2013 were published, the Executive Board released guidance for 2014 in which it projected a slight increase in revenues to between EUR 150 and 160 million and operating earnings (EBIT) within a range of between EUR 2 and EUR 5 million, thereby targeting an improvement in earnings and a return to positive operating results.

Due to the unsatisfactory new order intake during the second quarter, especially in the USA, the Executive Board, reduced the basis forecast for the full financial year by way of an unscheduled announcement on August 6th, 2014. At that time, the Executive Board assumed that the Group in the 2014 financial year would report a revenue decline of approximately 35 to 50 percent compared to 2013.

Although new order intake in the third quarter adopted a more positive trend, most of these orders did not become effective in terms of revenues until the 2014 fiscal year. As a consequence, the Executive Board communicated in an unscheduled announcement on November 4th, 2014 that it assumed at that point that it could achieve revenues in a range of between EUR 45 million and EUR 55 million in the 2014 financial year, and an operating result before interest and taxes (EBIT) in a range between EUR - 3 million and EUR - 4 million.

The EUR 33.8 million of consolidated revenues that was actually achieved, and the operating loss before interest and taxes (EBIT) of EUR - 4.6 million are below the bottom of the forecast range. Both outcomes fell significantly short of expectations. This was mainly due to delays in realising revenues and earnings from projects in the USA, which had still been anticipated to occur in 2014, but where agreements were not signed, and work did not commence, until 2015.

During the course of 2014 we failed to acquire the large-scale projects that we planned, mainly in the USA and Asia. This was due to a considerable number of external factors, in particular, as a result of which the expected new order intake failed to materialise. In many cases, our customers postponed projects that they had promised to us, and a few projects were cancelled completely. In the USA, punitive tariffs on Chinese modules fed through to uncertainty among customers. Although new order intake improved tangibly at the end of the third quarter, most of such orders would not become effective in terms of revenues until the 2015 financial year.

In Germany, our new business approach – standard packages for the owner-occupier homes segment – was considerably negatively affected by debate about levies on self-consumed electricity.

In connection with the extension of the financing until September 30th, 2016, and as part of revised corporate planning, a decision was taken to discontinue, without replacement, the pilot phase relating to the implementation of new business models in the owner-occupier homes area in Germany.

The specific key figures reported the following trends:

REVENUES
As described above, in 2014 the company failed to generate actual new order intake of expected large-scale projects deriving from business initiation activities, as a consequence of which the planned revenues failed to materialise. Therefore, the EUR 33.8 million of revenues that were actually achieved was far below the original forecast of between EUR 150 million and EUR 160 million.

EBITDA/EBIT
Due to the reduced revenues, EBIT of EUR - 4.6 million was also significantly below the original forecast of EUR 2 million to EUR 5 million. This actual outcome includes extraordinary items arising from the divestiture of the European O&M business, as well as expenses for the further restructuring measures due to the discontinuation of the new business models in Germany.

EQUITY
In consequence, consolidated equity also fell sharply to the tune of EUR - 1.6 million. Only a slight reduction compared with the figure of EUR 7.5 million had been expected at the end of 2013.

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

CREDIT LINE UTILISATION
By contrast, the utilisation of our overall credit line proved better than forecast. Actual utilisation of our lines stood at around 56 percent in 2014, compared with expected utilisation of 70 percent. This is attributable to reduced demand for working capital financing and collateral, due to the missing orders.

NEW ORDER INTAKE
Although new order intake from September 2014 was twice as high as during the first eight months of 2014, this annual figure of EUR 60 million also fell far short of the forecast range of EUR 160 million to EUR 170 million. In the final analysis, this difference was also the reason for the divergence from the aforementioned key financial indicators.

7 RESULTS OF OPERATIONS, FINANCIAL POSITION AND NET ASSETS

7.1 RESULTS OF OPERATIONS

The significant delay in new order intake, mainly in the USA, meant that revenue and earnings fell far short of expectations in 2014. The order book position failed to report marked growth again until the autumn, although the related revenue and earnings will not arise until during 2015. As a consequence, the outlook for 2015 is again positive after an unsatisfactory 2014.

With an unscheduled announcement on August 6th, 2014, we communicated that we will sell the Operation & Maintenance (O&M) activities in Ulm to SMA Technologies AG. As part of the Power Plants segment in Germany, the Operation & Maintenance business comprised discontinued operations as of December 31st, 2014. By contrast, the Components & Systems segment and the continuing portion of the Power Plants segment qualify as continuing operations as of December 31st, 2014. The comparison of the results of the discontinued operations refers below to a period of ten months for the 2014 financial year – due to the investiture as of October 31st, 2014 – while the 2013 results for the full year are presented.

Development of Revenues by Segment and Region 2010-2014

		2014	2013	2012	2011	2010
Consolidated revenues	€ m	33.8	141.2	155.4	393.5	635.7
Change from prior year	%	– 76.1	– 9.1	– 60.5	– 38.1	34.4
C & S revenues	€ m	17.3	56.7	72.4	241.0	368.5
Change from prior year	%	– 69.5	– 21.7	– 70.0	– 34.6	23.2
Power Plant revenues	€ m	16.5	84.5	83.0	152.5	276.2
Change from prior year	%	– 80.5	1.8	– 45.6	– 44.8	58.7
Domestic revenues	€ m	3.0	16.7	16.7	168.5	471.2
Change from prior year	%	– 81.8	– 0.2	– 90.1	– 64.2	5.8
EU revenues, excl. Germany	€ m	12.7	33.2	33.2	187.9	162.3
Change from prior year	%	– 61.7	0.0	– 82.3	15.8	611.8
RoW revenues	€ m	18.0	91.4	105.5	37.1	2.2
Change from prior year	%	– 80.3	– 13.4	– 184.4	1,586.4	– 55.1

7.1.1 REVENUE ANALYSIS

The Phoenix Solar Group generated EUR 29.7 million of revenues over the full course of 2014 from its continuing operations. This corresponds to a considerable decline in revenues of 78.2 percent, or of EUR 106.4 million compared with the previous year's EUR 136.1 million. Almost all of this revenue is attribut-able to foreign markets, which were served exclusively by our foreign subsidiaries.

Overall, 58.3 percent (2013: 41.7 percent) of total revenues from the continuing operations were attributable to the Components & Systems segment, while 41.7 percent (2013: 58.3 percent) were attributable to the Power Plants segment.

Discontinued operations generated EUR 4.1 million of revenues (2013: EUR 5.1 million). Of this amount, 67.8 percent was attributable to Germany (2013: 64.8 percent), and 32.2 percent to abroad (2013: 35.2 percent).

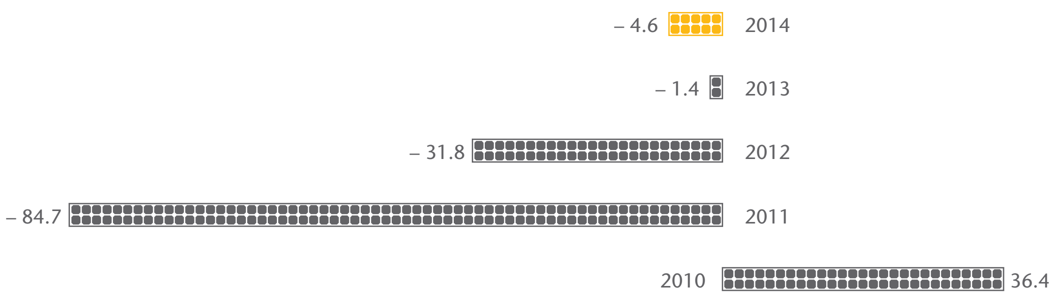
Revenues 2010-2014 in € m

7.1.2 GROUP ORDER BOOK POSITION

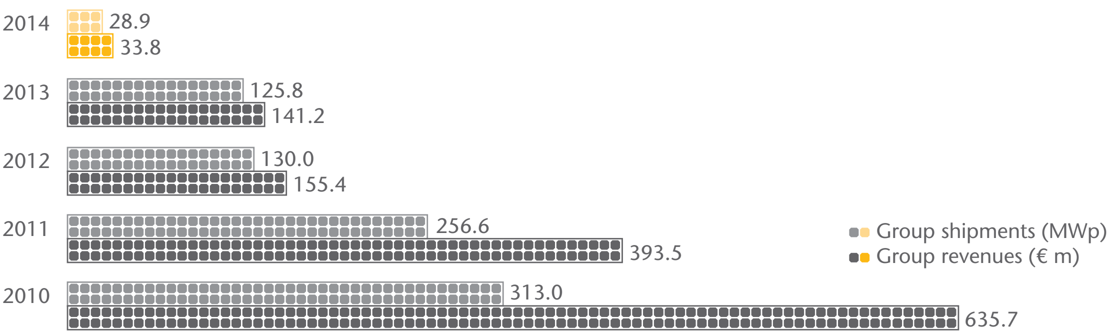
As the discontinued O&M operations did not report any order book position in the classic sense the word, but were instead characterised mostly by long-term service contracts, the following statements about the order book position relate exclusively to the continuing operations.

The order book position amounted to EUR 46.2 million as of December 31st, 2014 (December 31st, 2013: EUR 65.0 million). The order book position adjusted to reflect revenues that have already been realised nevertheless registered a marked increase in EUR 4.3 million as of December 31st, 2013 to EUR 36.3 million. This represents more than eightfold the previous year's level.

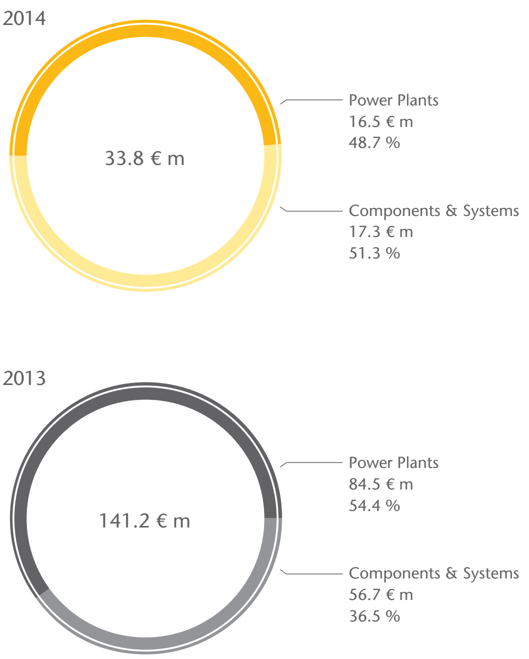
EBIT 2010-2014 in k€



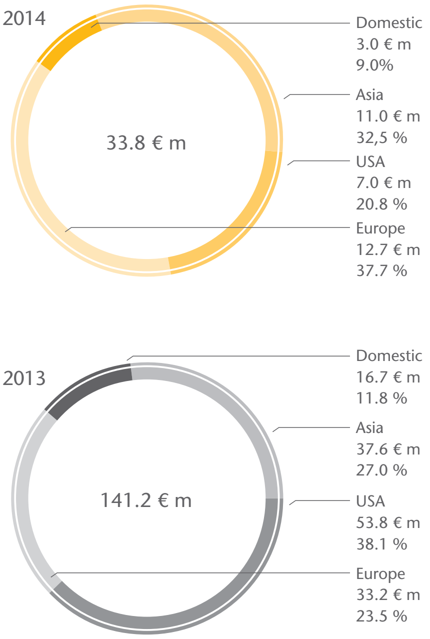
Revenues and shipments 2010-2014 in € m



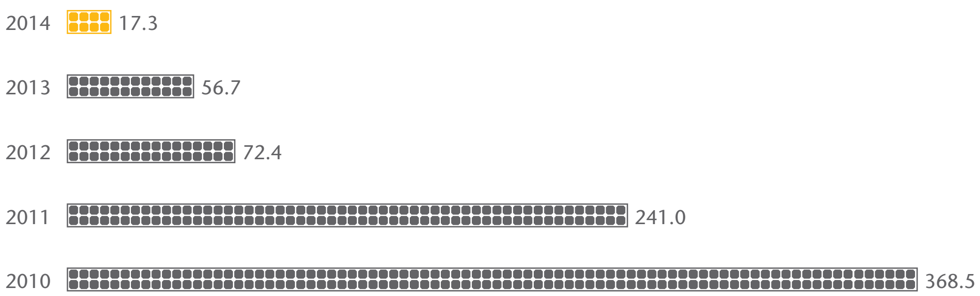
Revenues by segments



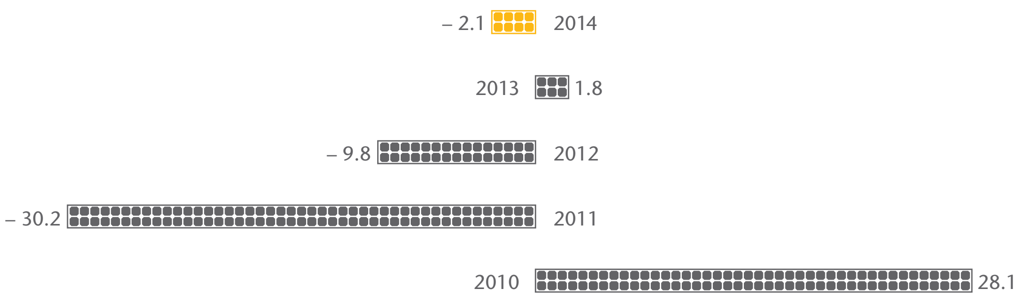
Revenues by region



Revenues Components & Systems 2010-2014 in € m



EBIT Components & Systems 2010-2014 in € m



7.1.3 SEGMENT TRENDS

Components & Systems

The Components & Systems segment realised EUR 17.3 million of revenues in 2014 (2013: EUR 56.7 million). This corresponds to a 69.4 percent fall compared with 2013, although the previous year's revenues included a large-scale project in Thailand that was recognised as Components & Systems revenue due to its contractual structure.

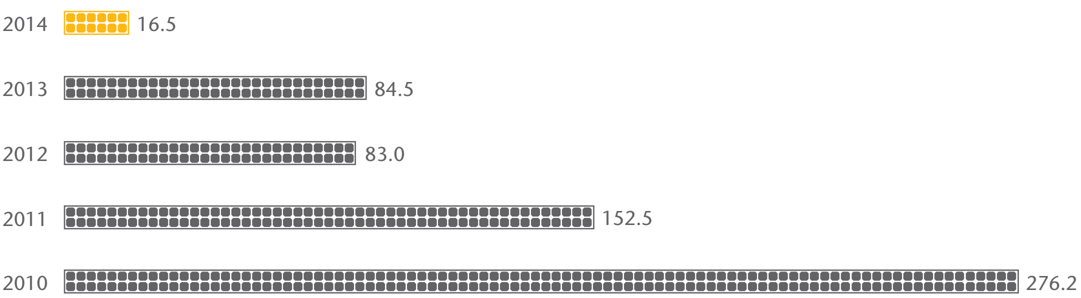
As of December 31st, 2014, the Components & Systems segment reported a slight increase in orders on hand, from EUR 0.9 million to EUR 2.3 million (December 31st, 2013: EUR 1.4 million). As in the previous year, only a small proportion of orders on hand were attributable to operations in Germany, whereas international orders amounted to EUR 2.3 million (previous year: EUR 1.4 million).

Of the EBIT from continuing operations, an EBIT loss of EUR - 2.1 million was attributable to the Components & Systems segment (previous year: EBIT profit of EUR 1.8 million), with the good margin situation of the aforementioned large-scale project in Thailand exerting a positive effect in the previous year.

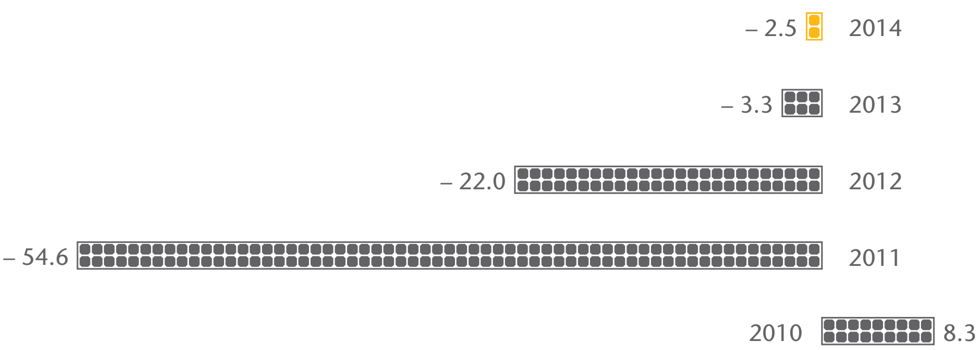
Power Plants

The Power Plants segment also registered a year-on-year fall in revenues to EUR 12.4 million. As a consequence, this segment was down by 84.4 percent, or by EUR 67.0 million, compared with the previous year (2013: EUR 79.4 million). This segment failed to acquire follow-up orders in 2014.

Revenues Power Plants 2010-2014 in € m (including O&M business)



EBIT Power Plants 2010-2014 in € m (including O&M business)



The order book position in this segment amounted to EUR 43.9 million as of December 31st, 2014 (December 31st, 2013: EUR 63.6 million). This represents a decline of EUR 19.7 million, equivalent to 31.0 percent. It is nevertheless very pleasing that the order book position adjusted to reflect realised revenues (free order book position) arising from power plant projects that have already been commenced reported a marked increase compared with December 31st, 2013 to reach a level of EUR 34.0 million (December 31st, 2013: EUR 2.9 million). This is primarily due to the receipt of a new order for a large-scale project in the USA.

Of the EBIT from continuing operations, an EBIT loss of EUR - 8.3 million was attributable to the Power Plants segment (previous year: EUR - 4.2 million).

7.1.4 GROUP EARNINGS TRENDS

Despite the recovery in the order book position since autumn 2014, it was no longer possible to make up for the divergence in revenues. Cost-reduction measures were also unable to offset the weak revenue trend. The EBIT loss from continuing operations of EUR - 10.5 million was significantly below the previous year's loss of EUR - 2.3 million. This year's EBIT was burdened by EUR 0.5 million of restructuring expenses, compared with EUR 1.9 million in the previous year. Discontinued operations generated EUR 5.8 million of EBIT (2013: EUR 0.9 million). This includes the positive effect from the divestiture of the O&M business.

7.1.5 TRENDS IN KEY INCOME STATEMENT ITEMS

Other operating income

Continuing operations generated other operating income of EUR 6.9 million, reflecting an increase of EUR 1.5 million, 30.5 percent, compared with 2013. This income primarily comprises EUR 2.1 million of electricity income from the company's own photovoltaic systems (2013: EUR 2.3 million). The item also include income from the release of warranty provisions (EUR 2.0 million) and income from the elimination of specific value allowances (EUR 0.7 million).

The discontinued operations generated EUR 4.8 million of other operating income (2013: EUR 0.2 million), which resulted mainly from the divestiture of the O&M business.

Cost of materials/gross profit

In the continuing operations, the cost of materials fell by EUR 90.3 million, or by 77.3 percent, to EUR 26.4 million (2013: EUR 116.7 million), mainly due to the lower volume of business. This amount includes only a minor amount (EUR 0.2 million) of reversals of impairment losses applied to materials (2013: impairment losses of EUR 3.6 million).

Overall, on revenues of EUR 29.7 million (previous year: EUR 136.1 million), gross profit from continuing operations registered a very marked fall compared with 2013 of EUR 16.2 million, from EUR 19.4 million to EUR 3.3 million. The gross profit margin was also down from 14.3 percent in 2013 to 11.0 percent.

In the discontinued operations, the cost of materials declined from EUR 2.9 million in the previous year to EUR 1.6 million. On revenues of EUR 4.1 million (2013: EUR 5.1 million), gross profit amounted to EUR 2.5 million as a consequence (2013: EUR 2.2 million). Here, by contrast, the gross profit margin rose from 43.2 percent to 60.4 percent.

Personnel expenses

As of December 31st, 2014, the Phoenix Solar Group employed a workforce of 96 members of staff (excluding Executive Board members but including temporary staff; previous year: 120), 93 of whom are in permanent positions (December 31st, 2013: 115). Compared with the position on December 31st, 2013, this corresponds to a decline of 24 individuals, which was largely due to the divestiture of the O&M business as of October 1st, 2014, and the personnel reductions in Germany due to the discontinuation of the new business models. On a year-average basis, this is consequently equivalent to around 110 full-time positions (excluding Executive Board members but including temporary staff; previous year: 147). Due to the sharp fall in revenues, the key performance indicator of revenues per full-time equivalent reported a marked decline from kEUR 1,031 in the previous year to kEUR 309.

In the continued operations, personnel expenses stood at EUR 8.6 million in 2014 (2013: EUR 13.6 million), reflecting a 36.4 percent decline. In connection with job cuts at the parent company, settlement expenses of EUR 0.5 million were incurred in the continuing operations (previous year: EUR 1.9 million).

Personnel expenses of EUR 0.9 million were incurred in the discontinued operations (2013: EUR 1.0 million).

Depreciation, amortisation and impairment

In the continuing operations, depreciation, amortisation and impairment losses were almost unchanged year-on-year at the level of EUR 1.4 million (2013: EUR 1.5 million).

The same also applies to depreciation, amortisation and impairment losses in the discontinued operations, which amounted to EUR 0.1 million (2013: EUR 0.2 million). These relate mainly to intangible assets, and to property, plant and equipment.

Other operating expenses

In the continuing operations, other operating expenses fell by EUR 1.5 million to EUR 10.5 million in the 2014 financial year (2013: EUR 12.0 million), reflecting a 12.3 percent fall. In the main, almost all items of other operating expenses reported a reduction, with cost increases occurring in only specific instances. In the discontinued operations, other operating expenses registered a slight increase from EUR 0.3 million in 2013 to EUR 0.4 million.

Income from associated companies

Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a 31.2 percent interest, has been equity accounted as an associated company since the 2009 financial year. The share of this company’s profit which is attributable to the Phoenix Solar Group amounted to kEUR 39.5 in 2014 financial year (2012: kEUR 68.4). This profit share is attributed in its entirety to the continuing operations.

Earnings before interest and taxes (EBIT)

The continuing operations incurred a loss before interest and taxes (EBIT) of EUR - 10.5 million in 2014. This reflects a marked reduction of EUR 8.1 million compared with the previous year’s comparable figure (2013: loss of EUR - 2.3 million). The EBIT margin fell accordingly from - 1.7 percent in 2013 to - 35.2 percent in 2014.

In the discontinued operations, EBIT amounted to EUR 5.8 million due to the extraordinary item arising from the divestiture of this business area (2013: EUR 0.9 million). Due to this extraordinary item, the EBIT margin thereby rose from 18.4 percent in 2013 to 142.8 percent.

Financial result

As the discontinued operations had no financing lines of their own, the following section refers exclusively to the continuing operations.

The net financial result of EUR - 5.1 million in the year 2014 was at the previous year's level (2013: EUR - 5.1 million). Financial income of EUR 0.1 million (2013: EUR 0.1 million) was offset by financial expenses of EUR 5.3 million (2013: EUR 5.2 million). As was almost precisely the case in the previous year, these financial expenses break down into EUR 2.4 million from interest and similar expenses, and, also almost unchanged year-on-year, EUR 1.9 million from financing costs. Expenses for credit guarantee fees stood at EUR 1.0 million (2013: EUR 0.9 million).

Tax rate

In the continuing operations, accounting tax income of EUR 1.0 million arose during the January to December 2014 period (2013: tax expense of EUR 2.6 million), although the previous year's tax expense incurred an expense of kEUR 975 as the result of a value allowance applied to a tax receivable. Accordingly, the tax rate (ratio tax expense to consolidated pre-tax earnings) amounted to 7.3 percent in the continuing operations (2013: - 35.1 percent).

The tax rate in the discontinued operations was unchanged at 26.7 percent. The tax expense amounted to EUR 1.6 million in 2014 due to the extraordinary item arising from the divestiture (2013: EUR 0.3 million).

Consolidated net profit/loss

As a consequence, the consolidated net loss from the continuing operations that is attributable to the parent company shareholders amounted to EUR - 14.5 million in 2014 (2013: EUR - 11.4 million). A consolidated net profit of kEUR 3.3 was attributable to minority interests (2013: EUR 1.4 million). Calculated on an average number of 7,372,700 shares, basic earnings per share stood at EUR - 1.96 (2013: EUR - 1.54). Since no material dilutive effects existed as of December 31st, 2014, only a slight difference occurs between diluted earnings per share and basic earnings per share.

The discontinued operations generated a net profit of EUR 4.3 million attributable to parent company shareholders (2013: EUR 0.7 million). Here, too, the extraordinary item arising from the divestiture fed through to a marked increase in earnings. Calculated on an average number of 7,372,700 shares, basic earnings per share consequently amounted to EUR 0.58 (previous year: EUR 0.09). Here, too, diluted earnings per share differ only slightly from basic earnings per share.

7.2 FINANCIAL POSITION

7.2.1 PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

As in previous years, financial policy continued to enjoy central significance in 2014. Along with continued close management of liquidity, the focus was on detailed cost management. In parallel, the company also continued the process of collecting long outstanding receivables.

7.2.2 DEBT FINANCING

With an unscheduled announcement dated November 4th, 2014, the company communicated the conclusion of a further extension to its credit lines until September 30th, 2016. As a consequence, and as in the previous year, the corresponding financial liabilities continue to be presented as noncurrent financial liabilities. Compared with the previous year, noncurrent financial liabilities fell by EUR 1.7 million, or 4.3 percent, to EUR 38.6 million (December 31st, 2013: EUR 40.3 million). Of the committed cash credit lines, EUR 7.2 million were available as of December 31st, 2014 (December 31st, 2013: EUR 8.7 million), and a further EUR 10.6 million were available for short-term requirements (December 31st, 2015: EUR 11.0 million).

The line for short-term requirements was adjusted proportionally to the total lending volumes that had been reduced overall.

7.2.3 CASHFLOW FROM OPERATING ACTIVITIES

The cash outflow from operating activities amounted to EUR 3.9 million in 2014 (2013: cash inflow of EUR 2.3 million). Compared with the previous year, mainly higher losses, a lower level of inventory reduction, and a reduced level of accumulation of liabilities fed through to negative effects on operating cash flow. In addition, interest paid rose from EUR 3.9 million in 2013 to 4.5 million years, and income taxes paid increased to EUR 1.0 million (2013: EUR 0.4 million).

7.2.4 CASHFLOW FROM INVESTING ACTIVITIES

Due to the nature of its operating activities, the Phoenix Solar Group's business model does not generally require significant investing activities. The cash outflow from investing activities over the EUR 0.8 million was at a comparable level to the previous year (2013: EUR 0.9 million). No investment obligations existed as of December 31st, 2014, as was also the case as of December 31st, 2013.

7.2.5 CASHFLOW FROM FINANCING ACTIVITIES

Mainly due to debt repayment, cash flow from financing activities in 2014 fed through to a EUR 1.8 million higher cash outflow than in the previous year (2013: EUR - 0.3 million). It comprises the cash outflow for repayments in an amount of EUR 1.7 million (previous year: cash inflow of EUR 0.8 million), and commissions of around EUR 0.5 million for the syndicated loan agreement (2013: EUR 1.2 million). This figure includes interest income of EUR 0.1 million as a cash outflow, which is similar to the previous year (2013: EUR 0.2 million).

7.2.6 CHANGE IN CASH AND CASH EQUIVALENTS

The Phoenix Solar Group's cash and cash equivalents reduced overall by EUR 6.9 million to EUR 3.1 million in the 2014 financial year (December 31st, 2013: EUR 10.0 million). No liquidity shortfalls occurred in the 2014 financial year. The 2014 liquidity trends and the liquidity position as of December 31st, 2014 leads to the expectation that the Group will remain in a position to fulfil all its payment obligations. Furthermore, the existing Group financing fully secures the payments provided for in the currently valid planning. Provided that business continues to develop in line with expectations in 2015, no liquidity shortfalls are foreseeable.

7.3 NET ASSETS

The total assets of the Phoenix Solar Group stood at EUR 45.2 million on December 31st, 2014 (December 31st, 2013: EUR 67.8 million), corresponding to a decrease of 33.2 percent.

Partly due to the weak course of business during 2014, the reduction in total assets chiefly reflects the reduction in receivables (receivables due under long-term construction contracts, and trade receivables) by EUR 7.4 million to EUR 11.4 million (December 31st, 2013: EUR 18.8 million), and a EUR 6.9 million reduction in liquid assets as of the balance sheet date (December 31st, 2013: EUR 10.0 million). In addition, other financial assets fell – mainly due to a sharp decline in receivables booked at the subsidiary in Singapore – by EUR 5.3 million to EUR 3.5 million (previous year: EUR 8.8 million), while non-financial assets reduced by EUR 1.0 million to EUR 6.4 million (December 31st, 2013: EUR 7.4 million). For more information, please refer to the consolidated statement of changes in noncurrent assets (section (15)) in chapter D of the notes to the consolidated financial statements.

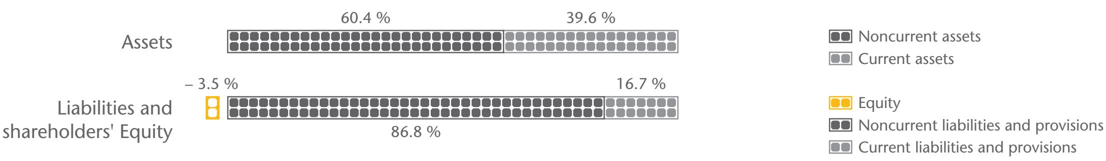
As a result of the consolidated net loss, the Group's equity fell by EUR 9.0 million to EUR - 1.6 million (December 31st, 2013: EUR 7.5 million). Accordingly, the equity ratio stood at - 3.5 percent as of December 31st, 2014 (December 31st, 2013: 11.0 percent).

As the Group does not comprise a legally independent company in itself, no going concern risks arise for the company as a result of its negative equity. Solely the equity of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code [HGB]), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 11.0 million as of December 31st, 2014, equivalent to a 20.0 percent equity ratio (December 31st, 2013: EUR 4.2 million, equivalent to a 10.1 percent equity ratio). The increase in the parent company's equity arises mainly from an intragroup transfer of shares in the subsidiary Phoenix Solar Incorporated, San Ramon/USA, to an intermediate holding company as part of an additional non-cash capital contribution, as well as from the divestiture of the O&M business.

Borrowed capital stood at EUR 46.8 million, down by EUR 13.5 million (December 31st, 2013: EUR 60.3 million), which was largely attributable to a decrease in liabilities (trade payables and liabilities arising from long-term construction contracts) of EUR 4.4 million to EUR 2.8 million (December 31st, 2013: EUR 7.2 million), and in current provisions, which fell by EUR 2.5 million to EUR 1.4 million (December 31st, 2013: EUR 3.9 million). Other non-financial liabilities also fell by EUR 2.4 million to EUR 2.2 million (previous year: EUR 4.6 million) whereas current tax liabilities declined by EUR 0.7 million to EUR 0.0 million (December 31st, 2013: EUR 0.7 million). Net debt amounted to EUR 36.6 million as of December 31st, 2014 (December 31st, 2013: EUR 32.9 million).

All figures in € m	**31/12/2014**	**31/12/2013**
Assets	**45.2**	**67.8**
Noncurrent assets	17.9	18.4
of which deferred tax assets	1.3	1.0
Current assets	27.4	49.4
of which inventories	2.1	3.1
of which receivables under long-term construction contracts	1.0	5.4
of which trade receivables	10.4	13.4
of which cash and cash equivalents	3.1	10.0
Equity and liabilities	**45.2**	**67.8**
Equity	– 1.6	7.5
Noncurrent liabilities and provisions	39.3	41.3
of which deferred tax liabilities	0.0	0.0
Current liabilities and provisions	7.5	19.0
of which trade payables	2.5	4.8
of which current financial liabilities	0.0	0.0

Balance structure 31/12/2014



8 GUIDANCE, REPORT ON OPPORTUNITIES AND RISKS

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

In the target markets which we address, we anticipate significant double-digit growth in newly installed photovoltaic capacity in 2015. According to estimates by the sector, installed Photovoltaic capacity is likely to be as follows: 8 GWp in the USA, 3.7 GWp in our Asian target markets (Southeast Asia and the Middle East) and 1.2 GWp overall in our European markets (France, Greece and Spain).

8.1 STRATEGY

In order to achieve the objectives that we have set ourselves for 2015, we will be relying primarily on organic growth, specifically by placing the highest priority on the target markets where we have already established a very promising foothold. We will continue to consistently implement our strategy of increased internationalisation in attractive international markets. In 2015, we will be focusing mainly on growth markets in the USA, Asia Pacific and the Middle East. As part of our strategy, we made new appointments to the Executive Board at the start of 2015, appointing Tim P. Ryan, a proven sales specialist with extensive sector experience, as Chief Executive Officer. In his dual function as Chief Executive Officer and President of our American subsidiary, Tim P. Ryan exerts direct operational influence on the further expansion of operating activities in the USA.

8.2 GUIDANCE IN THE BASELINE SCENARIO

Following the plunge in revenues in the 2014 financial year, sthe Executive Board and the management assumes that it will be possible to return to achieving significant revenue growth again in the 2015 financial year based on the company's current structure and positioning, as well as given the process of implementing strategic approaches in the coming years. Our free order book position already amounts to around two and a half times our consolidated revenues in the 2014 reporting year at the time this report was compiled.

As last year, the share of the Components & Systems segment in growth and volume will continue to play a subordinated role in 2015. We expect that this segment will now comprise only a little more than 10 percent of total revenues. As before, the Components & Systems segment comprises essentially revenues from Asia and France.

In the Power Plants segment, we assume very significant revenue growth compared with 2014. We expect the strongest growth rates in the USA, where we aim to increase our sales of newly installed MWp in the upper double-digit range. We also plan a return to a double-digit level of MWp sold in the Asian growth regions, however.

The basic assumption underlying this forecast is, firstly, continued market growth in our two most important markets: the USA and Southeast Asia. As explained in section 4, our subsidiaries in these countries are staffed by expert teams that all command very good networks, a proven track record, good references and a sound reputation. This qualifies them to take part in tendering processes or other opportunities to acquire smaller and larger projects and translate them into business. We therefore anticipate that these units are well positioned to expand with the market and even achieve above-average growth. Our high order book position as of the time of the publication of this report, which already covers more than 50 percent of our planned sales revenues, gives us particular confidence that we will attain our targets.

If these basic assumptions materialise as we expect in our segment and target markets, a return to significant revenue growth within the Group can be realised in the 2015 financial year. This would correspond to a range between EUR 140 million and EUR 160 million (2014: EUR 33.8 million). This will prospectively necessitate sales of between 160 MWp and 180 MWp (2014: 29 MWp).

On the cost side, we will prospectively see an improvement compared with the levels of the year under review due to the further reduction in the workforce, especially as we currently expect no extraordinary charges. Given this, we assume that we can generate earnings before interest and taxes (EBIT) of between EUR 1 million and EUR 3 million (2014: EUR - 4.6 million).

The financing agreement that was concluded in 2012 and extended until September 30th, 2016 covers the company's financing needs in full, based on the business plans. The Group's financing is secured until September 30th, 2016 as long as no significant deterioration occurs to business trends and the company's asset position, and no other events occur that might result in the termination of the agreements.

As we cannot anticipate a return to profitability – given stable financing until 2016, and planned free credit lines for 2015 averaging around 30 percent, with corresponding financing expense – the level of consolidated equity and the consolidated equity ratio will remain negative over the course of the 2015 financial year, and may even decline further. We then anticipate that equity will return to positive levels from 2016.

Guidance for the financial year 2015

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

8.3 RISK POLICY

As an internationally operating company, the Phoenix Solar Group is exposed to a wide variety of risks. Our risk policy is therefore geared to ensuring the continued operation of Phoenix Solar as a going concern and to sustainably increasing the company's value. In line with these principles, all business decisions are only taken after in-depth risk analysis and evaluation. As achieving business and financial success and profitability necessarily entails both opportunities and risks, our risk strategy takes both elements into account. This means that we enter quite intentionally into manageable and calculable risks in the area of our core competencies, if they lead to the expectation of appropriate returns. Risks in other areas are to be avoided, as a matter of principle, with no decision or action being allowed to enter a going concern risk.

8.4 OPPORTUNITY AND RISK MANAGEMENT SYSTEM

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

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

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

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

The function of the internal control system is to identify key risks and monitor the measures implemented to counter them. To this end, key elements such as process definitions, job descriptions and deputisation arrangements, as well as signature rules, are reviewed to verify that they are complete and up to date.

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

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

8.6 SUMMARY OF THE RISK POSITION

In the 2014 financial year elapsed, new order intake and revenues fell significantly short of expectations, especially in the USA. To this extent, we regard the risk pertaining to sales and the project business abroad as having partially materialised in 2014. This risk has nevertheless receded again considerably due to recent business trends. In the estimation of the Executive Board and to the best of our current knowledge, the risks to which we are thereby exposed are manageable. The Phoenix Solar Group was not jeopardised by any going concern risk as of the date when this report was prepared. This assessment applies to both the individual companies and the Group. In the context of our risk management system, only two specific risks continue to be classified as “significant”, namely the risk pertaining to the financing of the Group, and the risk arising from sales and project business in other countries. Further consideration of the two risks has resulted in each of them being classified as moderate.

Overview and assessment of the individual risks

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

8.7 SPECIFIC RISKS

8.7.1 GROUP FINANCING

A new syndicated loan was signed on May 11th, 2012. This agreement, which had an original term until March 31st, 2014, and which was last extended in November 2014 until September 30th, 2016 with reduced volume, covers – in combination with other bilateral financing arrangements – the financing requirement from the 2015 financial year the was calculated as part of planning. Due to the term of the extension of the credit lines until September 30th, 2016, no going concern risk consequently exists for the company on a one-year view due to a lack of extension of credit lines.

The agreement no longer contains any covenants since it was extended in November 2014. Extraordinary termination is possible due to a significant worsening of asset ratios or the business position – as is usual in such agreements, and which was also already included in previous versions. Such a deterioration would put the company's continued existence at jeopardy. This is currently not foreseeable, however, due to the high level of new order intake.

The company's management assumes on the basis of current business trends that the company's solvency is secured during the term of the syndicated loan. This is also especially justified on the basis of the conservative assumptions relating to cash inflows and cash outflows in the underlying corporate planning. Following the expiry of the current financing facility on September 30th, 2016, the company's solvency might depend on whether the syndicated loan is extended beyond that date. The Executive Board assumes that the syndicated loan contract will be extended beyond September 30th, 2016 in the appropriate/sufficient amounts.

8.7.2 LIQUIDITY

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

8.7.3 INTERNATIONAL SALES AND PROJECT BUSINESS

The Phoenix Solar Group enjoys an international presence through its subsidiaries on three continents. As in the previous year, the new strategic orientation will continue to result in a high degree of dependency by the Group on these markets over the coming years, and on the earnings contributions generated by the subsidiaries there. This is especially true of the USA and Asia, and the projects that are planned there. If projects in the multimegawatt range fall below sales planning as calculated on full-year basis, this could result in a considerable shortfall against consolidated revenue planning, leading to corresponding earnings loss. Although this risk materialised to considerable extent of 2014, we are convinced of the fundamental efficacy of these measures, and will continue with them. We will continue to counteract this risk through close coordination with the subsidiaries by way of a standardised reporting line with monthly, and even some weekly, management reviews and other regular monitoring measures geared to the sales situation of the companies. In addition, the company will continue to work on improving sales processes, and on exploiting the experience that was made in 2014 in relation to project lead times and the effects of project delays, in order to thereby minimise risk. The timely acquisition of significant planned projects, respectively revenue contributions, from these regions nevertheless remains a considerable risk to the Phoenix Solar Group.

The primary focus on countries outside the European Union poses a heightened risk due to the Group's involvement in various legal, political and currency systems. Misjudgements of legal and economic conditions, and resultant unpredictable cost burdens, are possible, as a matter of principle. We counter such risk through a defined approvals process for projects exceeding a certain dimension. The execution of the construction of photovoltaic power plants in foreign countries is sometimes subject to greater risks than in Germany. In order to identify and counter these risks at an early stage, especially in the case of major projects, standardised risk reports are prepared in the context of monthly reporting. Delays and cost increases compared with original budgets, thereby resulting potentially in lower gross margins, or even in losses, can nevertheless not be excluded.

8.7.4 POLITICAL AND REGULATORY FACTORS OF INFLUENCE

The development of the various national photovoltaic markets will continue to present a disparate picture in 2015 in terms of the extent to which they are fostered or hampered by legislation. The returns that can be achieved by new photovoltaic systems are negatively affected by long-term legislative degression models, as well as unannounced and occasionally radical changes in legislative frameworks, and intervention that impairs confidence and fails to protect installed capacity. The resultant uncertainty on the part of investors and operators can cause markets to stagnate, or even contract.

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

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

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

8.7.5 MARKET, COMPETITION AND EXTERNAL FACTORS OF INFLUENCE

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

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

8.7.6 PURCHASING AND INVENTORIES

By contrast, the risk of needing to implement a higher level of write-offs as the consequence of falling module prices has declined significantly following the winding down of our stocks in Germany, and the decentralisation and flexibilisation of purchasing, and can meanwhile be regarded as minimal. The close monitoring of all subsidiaries, accompanied by stringent inventory management standards, comprise measures that will considerably lower the risk of inventory devaluations.

8.7.7 CURRENCY RISKS

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

8.7.8 OTHER RISKS

According to the current status of knowledge, none of the other risks that are monitored constantly as part of the risk management system (receivables default risk, warranty risk, and tax and legal risks, for example) are such that their materialisation would entail a significant negative impact on Group revenue and earnings.

8.8 OPPORTUNITIES

Although the sales function harbours critical risks to the success and profitability of business in 2015, this area also offers additional opportunities.

Opportunities within our US business derive from continued market growth and the high expertise of our staff – both in technical-planning terms, as well as in the structuring of financing facilities and in approvals procedures. The team was partially repositioned in 2014 in order to better meet market requirements. This should, in turn, significantly boost the expansion of business relationships with additional investors and project developers, thereby ultimately raising the number of offers and volume of business concluded. New order intake since the end of 2014 shows the efficacy of these measures.

In Asia, we will rise to the challenge posed by the large number of different individual markets with a dynamic, international team, whose members have are networked with regional and local industries. Here, too, reference projects which have already been completed, and our employees' expertise will generate opportunities to raise our company's profile and expand our sales activities.

In addition, we have focused our sights on the Gulf region, where we have already established our presence through reference projects in Saudi Arabia and Jordan. Here, we are investigating possibilities to rapidly expand our market presence and penetration.

We are very confident that we can successfully seize the opportunities on offer, thereby returning to marked profitability growth already in 2014.

8.9 FUTURE DIVIDEND POLICY

As a matter of principle, Phoenix Solar AG pursues the objective of a shareholder-oriented dividend policy that corresponds to the company's development, and the respective business situation. The company has met this goal in the past. No distributions are planned for the foreseeable future, however, due to the company having realised considerable losses in the 2011 to 2014 period.

9 GENERAL STATEMENT ON THE GROUP'S POSITION AND PROSPECTS

We were unable to exploit the significant revenue and earnings potentials that we had anticipated for the 2014 financial year. Delays to new order intake prompted us to downgrade our forecast twice, and to make further interventions, especially discontinuing the initiative to establish new business models on the German market, despite some good leads. Current business trends, as well as all restructuring projects and measures, were discussed with our financing banks, which provided a solid foundation for our further development and growth with the modification and extension of our existing financing facility until September 2016.

The success of the Phoenix Solar Group currently depends to a great extent on the subsidiaries in the USA and in Southeast Asia. We are well positioned in both core markets, have a good track record of references and flagship projects, well qualified and motivated staff, as well as good connections in the sales markets. This also means, however, that these subsidiaries' sales successes are critical to the Group as a whole. We were aware, and had to make the experience in 2014, that the selling of photovoltaic projects can entail a certain volatility in the progression of business, whereby constant quarterly revenue and earnings growth cannot necessarily be expected.

For this reason, we developed and implemented instruments that allow us to rapidly record and control sales activities and successes across the Group. The Executive Board anticipates and works with all managers toward ensuring that business contacts that have been initiated are realised as actual orders at least to the extent sufficient in order to achieve targets. Later than we expected a year ago, but clearly within the expected scope, the successes of this approach are now emerging. Despite this, it is precisely this implementation – or non-implementation – that harbours considerable risk for the Phoenix Solar Group. Smoothing out sales successes and securing the planning bases remain constant tasks for the entire company.

Alongside the core markets of the USA and Southeast Asia, we aim to reinforce our presence in the Middle East, where we can also present prestigious references, and draw on a good network of contacts.

By comparison, the situation of our European subsidiaries depends to a much greater extent on political conditions in the European Union and its member states. We are currently observing that policymakers are seeking possibilities to efficiently integrate the expansion of renewable energies into electricity market structures. This search, however, has given rise to a great deal of uncertainty in the markets and for customers, which could have a negative impact on the development of our business. Given this, we have taken precautions with the aim of preserving a presence in these markets for as long as possible without incurring significant risks for the Group's success and profitability. Indeed, we continue to believe that the demand for photovoltaics in these countries will also register a sharp recovery in due course. We are also prepared, however, to fully wind down specific companies, such as in Italy in 2014, if this proves necessary for this stability of the entire company.

All operating activities have been discontinued in Germany with the divestiture of our business entailing operating and maintenance services at the Ulm site, and the ending of our initiative to establish new business models. Phoenix Solar AG, Sulzemoos, now exclusively performs holding functions for the Group. Measures to sustainably bolster the parent company's equity are being prepared and implemented during the course of 2015.

We are convinced that photovoltaics can hold its own in the competitive arena, and remain a future-oriented technology. Its market penetration stands on the threshold of a new phase, however, when conditions and opportunities are set to change swiftly, requiring a new approach from providers, policymakers, investors and customers. In this situation of radical change, we are positioning Phoenix Solar AG as a company which can rise to meet these challenges with its range of products and services. Returning to sales and earnings growth will depend on how swiftly we can achieve this positioning, and convert our good foothold in our core markets into business. The start of 2015 appears to justify an optimistic view for the current year and beyond.

10 SUSTAINABILITY

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

The following section lists specific measures which were launched over the past years, and continued to be implemented at the German locations during the 2014 financial year.

10.1 ECOLOGY

10.1.1 PRODUCTS, SERVICES AND SUPPLIERS

Phoenix Solar Group only distributes products worldwide that contribute to climate protection and environmental protection. Photovoltaic systems generate electrical energy from sunlight. They are virtually silent and do not emit pollutants. Photovoltaic systems thereby make an important contribution to an energy mix that is oriented to reducing CO_2 emissions. Depending on the module technology, solar power plants generate the equivalent of the energy used to build them within around three years. Thereafter they produce a positive energy footprint. Based on current standards, photovoltaic plants can be expected to operate for more than 30 years.

In building large-scale photovoltaic power plants, the Phoenix Solar Group fulfils and monitors all nature protection and environmental protection requirements stipulated in the land-use plans. This also applies to carrying out regular operation and maintenance work which partly include the drawing up and implementation of environmental concepts for the individual photovoltaic power plants.

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

10.1.2 CERTIFIED PROCESSES

Back in 2009, the Power Plants segment of Phoenix Solar AG had already introduced a quality assurance and environmental management system which was certified under the international standards DIN EN ISO 9001:2008 and DIN EN ISO 14001:2004. The integrated management system was supplemented by the introduction of an energy management system certified under DIN EN ISO 50001:2011. The annual follow-up audits were conducted both by an internal and an external auditor. The last internal and external audits occurred in 2013. Certification is not being renewed due to the discontinuation of operating activities in Germany.

10.1.3 ENVIRONMENTAL MANAGEMENT SYSTEM

Phoenix Solar AG has introduced an environmental management system that is based on the applicable standards for quality assurance (DIN EN ISO 9000 et seq.) and the international standard for environmental management (DIN EN ISO 14000 et seq.). The company's environmental management system governs the organisational procedures, the detection of deficiencies, the initiation of corrective measures, and the provision of necessary resources to improve and preserve the company's environmental situation. The effectiveness of this system was continuously monitored, adjusted and improved by means of periodic reviews during 2014.

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

The environmental management system will not be continued from 2015 in the context of the divestiture of the activities at the Ulm site, and the significantly reduced scope of Group headquarters in Sulzemoos.

10.1.5 ENERGY MANAGEMENT SYSTEM

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

The energy management system will not be continued from 2015 in the context of the divestiture of the activities at the Ulm site, and the significantly reduced scope of Group headquarters in Sulzemoos.

10.1.6 VEHICLE FLEET

The Groupwide vehicle fleet was subject to guidelines relating to cylinder capacity, fuel consumption and CO_2 emissions in the 2014 financial year. In 2014, too, the environmental protection association Deutsche Umwelthilfe honoured Phoenix Solar with the “Green Card for Credible Climate Awareness” in recognition of its low carbon footprint.

10.1.7 OTHER PROGRAMS

At our location in Sulzemoos, we continued to purchase the electricity that we consume from a certified eco-electricity provider. The buildings in Sulzemoos are heated by a wood chip-fuelled thermal power plant. We also minimise paper consumption, and purchase the paper we use for our print products only from paper manufacturers that carry the seal of the Forest Stewardship Council (FSC).

10.2 COMMITMENT TO SOCIAL RESPONSIBILITY

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

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

As of December 31st, 2014, the share capital of Phoenix Solar AG amounted to EUR 7,372,700.00, unchanged from the prior year. It is divided into 7,372,700 no-par bearer shares. All shares are issued and fully paid-up. Pursuant to section 5 para. 5 of the articles of incorporation, shareholders are not entitled to separate share certificates. All shares are ordinary shares. Each share grants the same co-administration and asset rights and confers one vote per share in the Annual General Meeting. Further rights and obligations of the shareholders have been laid down in the German Stock Corporation Act (AktG), particularly under Sections 53a et. seq. and 118 et. seq.

No restrictions exist on voting rights or the transfer of shares. The company’s Executive Board is not aware of any private-law agreements of this kind between shareholders.

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

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

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

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

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

By way of resolution by the Annual General Meeting of July 14th, 2011, the Executive Board was authorised to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,686,350.00 by issuing up to 3,686,350 new bearer shares in exchange for cash and/or in-kind capital contributions on one or more occasions on or before July 13th, 2016 (Authorised Capital 2011). Subscription rights must be granted to the shareholders as a matter of principle. The Executive Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights specifically in the following cases:

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

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

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

No further stock options may be issued under the authorisation resolved by the Annual General Meeting of July 7th, 2006, which was in effect until July 1st, 2011, to establish a Stock Option Plan 2006, which entailed the issuance of stock options granting subscription rights to shares of the company to members of the Executive Board, members of the senior management of Group companies and other selected executives and key employees, under the exclusion of the shareholders' subscription rights. No stock options were exercised in financial year 2013. As of December 31st, 2014, 42,500 options were still outstanding. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company has not been terminated by either party at the time when the stock options are exercised. The exercise price is no less than EUR 20.00 for any of the tranches. Further details on the Stock Option Plan are provided in the notes to the consolidated financial statements (section F, chapter (40)).

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

The syndicated loan agreement concluded on May 11th, 2012, and subsequently amended and reformulated by agreement of November 3rd, 2014, contains change-of-control clauses. Under this agreement, all drawdowns under the credit facility will be due and payable within fourteen days if one person or several persons “acting in concert” gain/s control over the company. For this purpose, control is defined as the holding (either directly or indirectly) of a qualified minority stake (more than 30 percent) of the shares or voting rights in the company, or the right to appoint or revoke the appointments of Executive Board members, or to appoint the management and/or the Supervisory Board of the company.

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

12 COMPENSATION REPORT

12.1 PRINCIPLES OF THE COMPENSATION SCHEME FOR THE EXECUTIVE AND SUPERVISORY BOARDS

In accordance with Section 315 para. 2 No. 4 of the German Commercial Code (HGB), the basic principles of the compensation system applied for setting the total compensation of the Executive Board and Supervisory Board of Phoenix Solar AG, as prescribed in Section 314 para. 1 No. 6 of the German Commercial Code (HGB). The compensation report adheres to the provisions of the Executive Board Compensation Disclosure Act (VorstOG) and the recommendations of the German Corporate Governance Code, and itemises the compensation granted to individual members of the Executive Board and Supervisory Board.

12.2 EXECUTIVE BOARD

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

In the 2014 financial year elapsed, the total compensation of Executive Board members was composed of the non-performance related components and performance-related components described below:

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

As a general rule, a dual system comprising both personal, qualitative goals and company-specific, quantitative goals was applied until 2013 as the basis for performance-based compensation. To ensure that the compensation system is appropriately geared to long-term performance, long-term incentives were established in the form of an EBIT hurdle for the quantitative goals, and a bonus index system based on a multiplier concept developed by Swiss research firm Obermatt. Given far-reaching changes in the entire solar industry, peer group insolvencies, the comprehensive restructuring and realignment of Phoenix Solar, and the administrative costs, this system is no longer appropriate, however. The performance-based remuneration was consequently converted in 2013 to a flexible form with a system of agreeing goals which allows the Supervisory Board to agree and set goals specially aligned to the company's respective situation and the scope of responsibility assigned to the individual Executive Board member, and to define variable compensation depending on the degree to which goals are achieved. Performance is generally assessed over a horizon of several years in order to factor in the company's sustainable development and growth. The Supervisory Board can nevertheless diverge from this principle depending on the company's situation, and opt for a single-year basis, for instance. This option was utilised due to the special restructuring situation with the company's extensive realignment in 2013.

The activities of Dr. Bernd Köhler as an Executive Board member and his assumption of the role of Chief Executive Officer on March 1st, 2013 were redefined on the new contractual basis of a management service agreement. This contract had a term until December 31st, 2014, and was not extended at Dr. Bernd Köhler's wish. This agreement no longer provided for additional benefits such as a company car, accident insurance, continued payment of benefits in the event of death, contributions to a company pension or regulations governing severance payment, and defined a relatively strong performance incentive through the company's option to terminate the contract at relatively short notice. Compensation was based on a fixed and a fundamentally variable daily rate. The latter component was, however, also fixed during the 2014 financial year.

The performance-based compensation components are capped.

Total Executive Board compensation amounted to kEUR 971 in the 2014 financial year (previous year, including compensation former directors who no longer belong to the company in the year under review: kEUR 1,187). The following section presents individual compensation separated according to remuneration granted and actual accruals:

Dr. Bernd Köhler
Chief Executive Officer and Chief Financial Officer from 01/12/2012 until 31/12/2014

k€	Payments/benefits granted				Non-performance related components	
	2013	2014	2014 (Min)	2014 (Max)	2013	2014
Fixed compensation	514	487	487	487	514	487
Additional benefits	25	25	25	25	25	25
Total	**539**	**512**	**512**	**512**	**539**	**512**
One-year variable compensation	0	0	0	0	23	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	**0**	**0**	**0**	**0**	**0**
Pension expense	10	0	0	0	10	0
Total compensation	**549**	**512**	**512**	**512**	**572**	**512**

Dr. Murray Cameron
Executive Board member

k€	Payments/benefits granted				Non-performance related components	
	2013	2014	2014 (Min)	2014 (Max)	2013	2014
Fixed compensation	162	215	215	215	177	215
Additional benefits	15	8	8	8	15	8
Total	**177**	**223**	**223**	**223**	**193**	**223**
One-year variable compensation	140	0	0	150	78	74
Multi-year variable compensation	0	0	0	0	0	0
Total	**140**	**0**	**0**	**373**	**78**	**74**
Pension expense	0	0	0	0	0	0
Total compensation	**317**	**223**	**223**	**373**	**270**	**297**

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

k€	Payments/benefits granted				Non-performance related components	
	2013	2014	2014 (Min)	2014 (Max)	2013	2014
Fixed compensation	0	218	218	218	0	218
Additional benefits	0	18	18	18	0	18
Total	**0**	**236**	**236**	**236**	**0**	**236**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	150	0	30
Total	**0**	**0**	**0**	**150**	**0**	**30**
Pension expense	0	0	0	0	0	0
Total compensation	**0**	**236**	**236**	**386**	**0**	**266**

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

No loans were extended to members of the Executive Board.

12.3 SUPERVISORY BOARD

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

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

Supervisory Board compensation comprised no performance-related compensation components or compensation components of long-term incentive effect in either the 2014 or 2013 financial years.

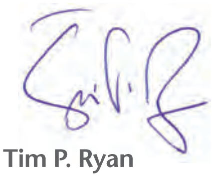
The sum total of remuneration paid to the Supervisory Board in 2014 amounted to kEUR 129 (previous year: kEUR 124) and is itemised in the table below (net figures excluding VAT):

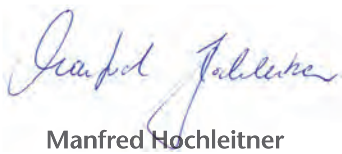
k€	Non-success-dependent components (incl. ancillary benefits)		Total	
	2013	2014	2013	2014
J. Michael Fischl	52	54	52	54
Prof. Dr. Thomas Zinser	38	39	38	39
Oliver Gosemann	34	36	34	36
Total	**124**	**129**	**124**	**129**

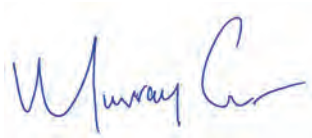
13 RESPONSIBILITY STATEMENT

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

Sulzemoos, March 25th, 2015
Phoenix Solar Aktiengesellschaft
The Executive Board


Tim P. Ryan
(Chief Executive Officer)


Manfred Hochleitner
(Chief Financial Officer)


Dr. Murray Cameron
(Executive Board member)

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CONSOLIDATED FINANCIAL STATEMENTS

ACCORDING TO IFRS FOR THE FINANCIAL YEAR FROM JANUARY 1ST UNTIL DECEMBER 31ST, 2014 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

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

CONSOLIDATED INCOME STATEMENT

Persuant to IFRS for the period from January 1st, 2014 until December 31st, 2014 k€	Notes C.	01/01/2014 – 31/12/2014	01/01/2013 – 31/12/2013
Revenues	(1)	33,783	141,223
Change in inventory of work in process	(2)	0	0
Overall performance		**33,783**	**141,223**
Other operating income	(3)	11,694	5,441
Cost of materials	(4)	28,050	119,609
Personnel expenses	(5)	9,578	14,578
Depreciation and amortisation		1,569	1,663
Other operating expenses	(6)	10,935	12,288
Operating result		**– 4,655**	**– 1,475**
Result from associated companies	(8)	39	68
EBIT		**– 4,616**	**– 1,407**
Financial income		146	158
Financial costs		5,271	5,210
Financial result	(9)	**– 5,125**	**– 5,052**
Consolidiated net income before income taxes (EBT)		**– 9,741**	**– 6,459**
Income taxes	(10)	426	2,847
Consolidiated net income for the period		**– 10,167**	**– 9,306**
– of which due to minority interest		– 3	1,382
– of which due to majority shareholders		– 10,170	– 10,688
Earnings per share			
Earnings per share (basic) (in €)	(11)	– 1.38	– 1.45
Earnings per share (diluted) (in €)	(11)	– 1.38	– 1.45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

pursuant to IFRS for the period from January 1st, 2014 until December 31st, 2014 k€	Notes D.	01/01/2014 – 31/12/2014	01/01/2013 – 31/12/2013
Consolidiated net income for the period		**– 10,167**	**– 9,306**
Transactions associated with minority interests		1,228	– 308
Differences from currency translation		828	– 433
Income taxes recognised directly under equity		0	0
Changes in value recognised directly under equity	(27)	**2,056**	**– 741**
Overall performance		**– 8,111**	**– 10,047**
– of which due to minority interest		1,231	1,074
– of which due to majority shareholders		– 9,343	– 11,121

CONSOLIDATED INCOME STATEMENT OF CONTINUED OPERATIONS

Persuant to IFRS for the period from January 1st, 2014 until December 31st, 2014 k€	Notes C.	01/01/2014 – 31/12/2014	01/01/2013 – 31/12/2013
Revenues	(1)	29,692	136,123
Change in inventory of work in process		0	0
Overall performance		**29,692**	**136,123**
Other operating income		6,858	5,255
Cost of materials	(2)	26,431	116,712
Personnel expenses	(3)	8,643	13,595
Depreciation and amortisation		1,442	1,479
Other operating expenses	(6)	10,530	12,005
Operating result		**– 10,496**	**– 2,413**
Result from associated companies		39	68
EBIT		**– 10,456**	**– 2,345**
Financial income		146	158
Financial costs		5,271	5,210
Financial result	(4)	**– 5,125**	**– 5,052**
Consolidiated net income before income taxes (EBT)		**– 15,581**	**– 7,397**
Income taxes		– 1,133	2,596
Income (loss) from continuing operations (after taxes)		– 14,448	– 9,993
Income from discontinued operations net of tax	(5)	4,281	688
Consolidiated net income for the period		**– 10,167**	**– 9,306**
– of which due to minority interest		3	1,382
– of which due to majority shareholders		– 10,170	– 10,687
Earnings per share	(6), (12)		
Earnings per share (basic) (in €)		– 1.38	– 1.45
– from continuing operations		– 1.96	– 1.54
– from discontinued operations		0.58	0.09
Earnings per share (diluted) (in €)		– 1.38	– 1.45
– from continuing operations		– 1.96	– 1.54
– from discontinued operations		0.58	0.09

The consolidated income statement relates exclusively the continuing operations.
The result of discontinued operations is presented in a separate line.

CONSOLIDATED BALANCE SHEET

pursuant to IFRS as at December 31st, 2014

ASSETS k€	Notes C. and D.	31/12/2014	31/12/2013
Noncurrent assets			
Intangible assets	(12,15)	372	794
Goodwill	(13,15)	298	298
Property, plant and equipment	(14,15)	14,777	15,126
Investments in associates	(16)	397	397
Other participating interests	(17)	151	151
Noncurrent receivables	(18)	474	486
Deferred tax assets	(10)	1,276	995
Noncurrent other financial assets	(23)	138	147
Total noncurrent assets		**17,883**	**18,393**
Current assets			
Inventories	(19)	2,067	3,083
Prepayments	(20)	41	85
Receivables from long-term construction contracts	(21)	1,026	5,354
Trade receivables	(22)	10,357	13,418
Current other financial assets	(23)	3,585	8,859
Current other non-financial assets	(25)	6,376	7,411
Current income tax assets		791	1,126
Cash and cash equivalents	(26)	3,114	10,029
Total current assets		**27,357**	**49,366**
Total assets		**45,240**	**67,758**

LIABILITIES AND SHAREHOLDERS' EQUITY k€	Notes C. and D.	31/12/2014	31/12/2013
Equity			
Subscribed capital	(27)	7,373	7,373
Capital reserve	(27)	64,582	64,582
Accumulated other equity	(27)	– 75,153	– 65,949
Share of majority shareholders in consolidated equity		– 3,199	6,005
Share of minority interest in consolidated equity		1,615	1,458
Total equity		**– 1,583**	**7,464**
Noncurrent liabilities and provisions			
Noncurrent financial liabilities	(28)	38,590	40,330
Noncurrent provisions	(29)	658	934
Deferred tax liabilities	(10)	31	3
Total noncurrent liabilities and provisions		**39,278**	**41,267**
Current liabilities and provisions			
Current financial liabilities	(28)	1	4
Liabilities from long-term construction contracts	(21)	346	2,401
Trade payables	(30)	2,469	4,784
Other financial liabilities	(31)	1,085	2,600
Other non-financial liabilities	(11)	2,151	4,561
Current provisions	(29)	1,439	3,934
Current income tax liabilities		54	744
Total current liabilities and provisions		**7,545**	**19,028**
Total liabilities and shareholders' equity		**45,240**	**67,758**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/2013 until 31/12/2014 k€	Notes C. and D.	Subscribed capital	Capital reserve	Accumulated other equity	Share of majority shareholders in consolidated equity	Share of minority interest in consolidated equity	Total equity
As per January 1st, 2013		**7,373**	**64,582**	**– 55,035**	**16,919**	**384**	**17,303**
Reserve for share options	(27), (40)		0	0	0	0	0
Difference from currency translation	(27)		0	– 433	– 433	0	– 433
Change in companies to be consolidated			0	207	207	– 308	–100
Consolidated net income/loss in 2013				– 10,688	– 10,688	1,382	– 9,306
As per December 31st, 2013		**7,373**	**64,582**	**– 65,949**	**6,005**	**1,458**	**7,464**
As per January 1st, 2014		**7,373**	**64,582**	**– 65,949**	**6,005**	**1,458**	**7,464**
Capital increase (Minorities)						154	154
Reserve for share options	(27), (40)		0	0	0	0	0
Difference from currency translation	(27)		0	828	828	0	828
Change in companies to be consolidated			0	138	138		138
Consolidated net income/loss in 2014				– 10,170	– 10,170	3	– 10,167
As per December 31st, 2014		**7,373**	**64,582**	**– 75,154**	**– 3,200**	**1,615**	**– 1,584**

CONSOLIDATED CASH FLOW STATEMENT

pursuant to IFRS for the period from January 1st, 2014 until December 31st, 2014 k€	Notes C. and D.	01/01/2014 – 31/12/2014	01/01/2013 – 31/12/2013
Consoldiated income before income taxes		– 9,741	– 6,459
Depreciation and amortisation	(6)	1,569	1,663
Other non-cash income (–) and expenses (+) (including result from associated companies)		– 376	– 289
Profit/loss from disposal of intangible assets and equipments		0	– 23
Financial income	(9)	– 146	– 158
Financial costs	(9)	5,271	5,210
Sub-total		**– 3,423**	**– 56**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(29)	– 1,113	– 1,221
Non-cash changes in noncurrent assets	(14), (15)	0	– 17
Increase/decrease in inventories	(19)	1,249	8,291
Increase/decrease in prepayments	(20)	44	246
Increase/decrease in receivables from long-term construction contracts	(21)	4,328	– 4,688
Increase/decrease in trade receivables (excl. non-cash transactions)	(22)	2,713	12,301
Increase/decrease in assets	(23), (25)	6,096	6,207
Increase/decrease in liabilities	(30), (31)	– 8,293	– 14,462
Funds generated by operating activities		**1,602**	**6,601**
Interest paid	(9)	– 4,513	– 3,901
Income taxes paid	(10)	– 1,035	– 384
Cash flow from operating activities		**– 3,947**	**2,316**
Proceeds from associated companies		39	0
Proceeds from disposal of intangible assets and equipment		0	33
Purchase of intangible assets and equipment	(12), (14), (15)	– 886	– 896
Cash flow from investing activities		**– 847**	**– 863**
Dividends paid		0	0
Payments in connection with financial liabilities	(28)	– 1,743	781
Commission for syndicated loan agreement		– 524	– 1,225
Interest income		146	158
Cash flow from financing activities		**– 2,121**	**– 286**
Changes in cash and cash equivalents		– 6,915	1,167
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		**– 6,915**	**1,167**
Cash and cash equivalents at the start of the period	(26)	10,029	8,862
Cash and cash equivalents at the end of the period	(26)	3,114	10,029
Increase/decrease in cash and cash equivalents		**– 6,915**	**1,167**

NOTES

TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2014 FINANCIAL YEAR OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As of December 31st, 2014, the Phoenix Solar Group (also referred to hereinafter as the "Phoenix Group") consisted of 21 companies with a total of 116 (previous year: 120) employees (including temporary employees, and excluding members of the Executive Board).

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

The parent company has been listed in the Prime Standard segment of Deutsche Börse AG, Frankfurt am Main, Germany, since June 27th, 2006. The Prime Standard is one of European Union's regulated segments, and is the segment of admission for companies that wish to also address international investors. Companies listed in the Prime Standard segment are required to apply the accounting regulations of the International Accounting Standards Board (IASB), in other words, those of International Financial Reporting Standards (IFRS) and the International Financial Reporting Interpretations Committee (IFRIC), to the extent they have been adopted in the European Union by way of the EU endorsement process.

The parent company's business purpose comprises the development, production, sales, operation and administration of components and systems for generating energy from renewable energy sources, and the assembly and maintenance of such equipment. The Phoenix Group also distributes components and systems for generating energy from renewable energy sources. The company is entitled to engage in any business which directly or indirectly serves its business purpose. It can set up branch operations or branch offices both in Germany and abroad, and acquire interests in identical or similar operations. It can pursue its business purpose as a holding company, either wholly or in part. In 2014, business operations occurred almost exclusively in North America, Asia and the Middle East, as well as in the Eurozone.

(2) INFORMATION ABOUT ACCOUNTING POLICIES

As a consequence, Phoenix Solar AG prepares its consolidated financial statements in accordance with the regulations of International Financial Reporting Standards (IFRS) or International Accounting Standards (IAS) which are applicable as of December 31st, 2014, and which have been issued by the International Accounting Standards Board (IASB) in London, and which the EU had adopted by the date when this set of consolidated financial statements was prepared. All of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for the 2014 financial year, and the earlier interpretations of the Standing Interpretations Committee (SIC), insofar as the EU had adopted them by the date when these consolidated financial statements were prepared, as well as the supplementary provisions of Section 315a (1) of the German Commercial Code (HGB) have been complied with in these consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement and the statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, the notes to the consolidated financial statements, and the Group management report that is to be prepared additionally. The consolidated financial statements were prepared on the basis of the going-concern principle and the historical cost principle, with the exception of the fair model value applied for purposes of measuring derivative financial instruments.

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

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

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

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

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

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

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

- **TAXES ON INCOME**

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

- **ESTIMATION OF MARKETABILITY OF MODULES KEPT ON STOCK**

For a wholesaler it is necessary to hold certain quantities of products on stock, in order to be able to fulfill customer requests in a timely manner. The product portfolio is being monitored and adjusted as part of an ongoing process. Adjustments are based on estimates made by the company regarding the marketability of the products and the foreseeable demand. It cannot be precluded that demand estimates may turn out to be wrong. This may result in inventories which may become obsolete in the course of technical progress and would then have to be written down to a lower value. Relevant data are being forecast by the sales organization.

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

The Phoenix Group places a high priority on the appropriateness of, and balance between, the terms and conditions for its purchasing and sales activities. In a very dynamic market environment such as for photovoltaics, this general approach partially results in contractual agreements being concluded with terms and conditions that affect purchasing and sales prices that take future events into account. In order to predict the outcome of such events, which the Phoenix Group is partially unable to influence, an estimation of the future occurrence of events needs to be made for accrual accounting purposes. Such estimates can differ from the actual outcome of events.

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

The Group's goodwill impairment tests apply calculations based on the discounted cash flow method. The expected cash flows over the next three years are derived from the financial plan for the cash-generating unit that is being tested for goodwill impairment. The recoverable amount is highly dependent on the discount factor applied in connection with the discounted cash flow method, as well as the expected future cash inflows and outflows, and growth rate applied.

- **MEASUREMENT OF FINANCIAL INSTRUMENTS**

Where no related primary market exists, the fair value of financial instruments must be determined either on the basis of derived market prices, or through the application of recognised valuation models such as the discounted cash flow method. The Group applies the "fair value hierarchy" defined in IFRS 7, under which the fair value is determined on the basis of inputs assigned to one of three levels, depending on the respective inputs' reliability. A differentiation is made between the following three levels in this context:

- Level 1 – price quotations for similar instruments
- Level 2 – directly observable market inputs, to the extent that they are not already Level 1 inputs
- Level 3 – input factors not based on observable market data

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

MEASUREMENT OF STOCK OPTIONS

IFRS 2 is applied for the accounting treatment of stock option plans, as particular forms of compensation under which the company is obligated to deliver its own shares to the beneficiaries when stock options are exercised. The fair value of the stock options on the grant date is determined on the basis of market prices (quoted prices of Deutsche Börse AG, Frankfurt), taking into account issue terms and conditions, and applying generally recognised measurement methods for financial instruments. The factors applied to measure the stock option values comprise exercise price, term, current market value of the underlying instrument (the share of Phoenix Solar AG), expected market price volatility based on historical volatility, dividends expected to be paid on the shares, and the risk-free interest rate for the term of the stock options. Other factors taken into consideration, as particular aspects of the exercise probability, include the necessary qualification period (blocking period), and potential exercise of the stock options based on historical exercise patterns. In subsequent periods, the stock options' calculated value is expensed proportionally over the term, taking into account the assumed length of service or assumed employee turnover rate among the beneficiaries. Because the corresponding amounts are reported under personnel expenses and capital reserves, changes in estimates relating to quantity structure can lead to changeable allocations to equity.

MEASUREMENT OF LONG-TERM COMPENSATION INCENTIVES

As far as performance-related compensation is concerned, a dual system comprising both personal, qualitative goals, and company-specific, quantitative goals, has generally been applied to date. In order to ensure a suitable compensation system for the future, long-term incentives were taken into account to the extent that both an EBIT target and a bonus index system with multipliers developed by Swiss research company Obermatt were set. This system no longer proved adequate, however, given major changes occurring in the entire solar industry, insolvencies among similar companies, and the comprehensive restructuring and realignment of Phoenix Solar and its administrative costs. Performance-related compensation was consequently modified to a flexible format with agreed targets that enable the Supervisory Board to agree or set targets tailored to the particular situation of the company and the areas of responsibility of individual Executive Board members, and to shape the variable remuneration as a function of achieving these targets. The basis for assessing targets always covers several years in order to reflect the company's sustainable growth and development. The Supervisory Board can nevertheless diverge from this principle depending on the company's situation, and opt for a single-year basis, for instance. Advantage was taken of this option in 2013 due to the special restructuring situation entailing fundamental realignment of the company.

RECOGNITION AND MEASUREMENT OF PROVISIONS AND/OR CONTINGENT LIABILITIES

The Group may be exposed to special warranty risks in some cases due to its business activity in the Power Plants segment, and its generally assumed role of general contractor. Although the Group requires adherence to quality standards in selecting materials and subcontractors (such as ISO 9001 certification for subcontractors and suppliers, for example), as well as appropriate training of the Phoenix employees involved, warranty provisions for completed projects cannot be entirely avoided. Due to a lack of industry-specific long-term experience, statistical methods must be applied to a greater extent to determine the best estimate of a provision. It must be assumed that the reliability of such estimates is limited due to the lack of a universe of statistically analysable data at present. As a consequence, over coming periods it cannot be ruled out that provisions will fail to match sales growth, or materials and services utilised.

a) The following new standards and interpretations or amendments to existing standards and interpretations must be applied for the first time for financial years starting from January 1st, 2014:

- **IFRS 10: "Consolidated Financial Statements", IFRS 11: "Joint Arrangements" and IFRS 12: "Disclosure of Interests in Other Entities"** as a comprehensive reform project:
  - IFRS 10 establishes a uniform definition for the term "control", and consequently a uniform basis for identifying the existence of a parent-subsidiary relationship and related delineation of the scope of consolidation.
  - IFRS 11 covers the accounting treatment of situations where a company exercises joint control over a joint venture or joint operation. The new standard replaces IAS 31: "Interests in Joint Ventures" and SIC-13: "Jointly Controlled Entities – Non-Monetary Contributions by Venturers", which comprised the rules that were previously relevant to questions relating to the accounting treatment of joint ventures.
  - IFRS 12 applies to the disclosures to be made in the notes to the consolidated financial statements concerning interests in other entities and joint arrangements.

- **Adjustment to IAS 27 (2011): "Separate Financial Statements"** – now contains only the unamended rules for IFRS separate financial statements. The new standard replaces the previously relevant IAS 27 (2008): "Consolidated and Separate Financial Statements" and SIC-12: "Consolidation – Special Purpose Entities".

- **Amendments to IAS 32: "Financial Instruments: Presentation"** – Additions and amendments relating to the expansion of mandatory disclosures about offsetting financial assets and financial liabilities. The change to IAS 32 clarifies the meaning of some of the rules applicable to offsetting financial assets and financial liabilities in the balance sheet.

- **Amendment to IAS 36: "Impairment of Assets"** – Modification relating to disclosures about recoverable amounts for non-financial assets.

- **Amendment to IAS 39: "Financial Instruments: Recognition and Measurement"** – The core of this amendment to IAS 39 comprises the novation of off-bourse derivatives, and rules relating to the continuation of an existing hedging relationship.

The review of newly applicable standards was not yet completed as of the reporting date. The presentation of the newly applicable standards, and of amendments and interpretations that may be relevant to the Group is provided under section a) with a corresponding comment.

Because the amended version of IAS 27 applies only to separate financial statements, and Phoenix Solar AG does not prepare separate IFRS financial statements pursuant to Section 325 (2a) of the German Commercial Code (HGB), these amendments will have no effects on the Phoenix Solar Group.

b) The following new standards and interpretations or amendments to existing standards and interpretations must be applied for the first time for financial years starting from 1 July 2014:

- **Adaptation of IAS 19 "Employee Benefits"** – now contains amendments relating to regulations for "Defined Benefit Plans: Employer Contributions" in relation to contributions made by employers or third parties that are connected with period of service.

The IASB has published its "Annual Improvements to IFRSs 2010 – 2012 Cycle". These annual improvements include amendments to seven standards. The European Union has not yet adopted the new regulations into European law:

- In the amendments to **IFRS 2: "Share-based Payment"** the definitions of "condition of exercise" and "market condition" have been clarified and the definitions of "condition of performance" and "condition of service" have also been supplemented.
- The amendment to **IFRS 3: "Business Combinations"** clarifies that contingent consideration that are classified as assets or liabilities must be measured at fair value on each reporting date. Fair value changes (with the exception of adjustments made in the measurement period) must be recognised as expenditure or income.
- The amendments to **IFRS 8: "Operating Segments"** specify, in particular, that a company must disclose any discretionary decisions that were taken by the company's management when applying the summary criteria to operating segments.
- The amendment to **IFRS 13** addresses the basis for the conclusion which clarifies that the publication of IFRS 13, and related amendments to IFRS 9 and IAS 39, do not signify that the option not to discount short-term receivables and payables has been abolished.
- The amendments to **IAS 16: „Property, Plant and Equipment"** require that when remeasuring property, plant and equipment, gross value is adapted in accordance with remeasurement of the carrying amount.
- The amendment to **IAS 24: „Related Party Disclosures"** clarifies that a company providing management services for the reporting entity, or the parent company of the reporting entity, must be viewed as a related party to the reporting entity.
- The amendment to **IAS 38: „Intangible Assets"** requires that when an intangible asset is remeasured, the gross carrying amount is adjusted in a manner that matches the remeasurement of the carrying amount, and that the cumulative amortisation constitutes the difference between the gross carrying amount and the net carrying amount after any impairment losses.

The "Annual Improvements to IFRSs 2011-2013 Cycle" that the IASB has published has resulted in amendments to four standards. These new regulations must also the applied from July 1st, 2014.

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

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

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

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

- **IFRS 15: "Revenue from Contracts with Customers"** This new standard provides rules on when, and to what level, revenue is to be recognised. IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", and a number of revenue-related interpretations. IFRS 15 is to be applied for the first time on January 1st, 2017 or for financial years commencing subsequently. All IFRS first-time adopters must apply IFRS 15, and it applies to almost all contracts with customers – the main exceptions comprise leases, financial instruments and insurance contracts.

- As of June 24th, 2014, **IFRS 9: "Financial Instruments"** was issued as an entirely new standard. It aggregates all previously published rules with new rules relating to the recognition of impairments, as well as limited amendments relating to the classification and measurement of financial assets. This standard also comprises a new model for the general accounting treatment of hedges. IFRS 9 is to be applied to all types of financial instruments. The scope of application is determined according to IAS 39, so that the scope of application of IFRS 9 accords with IAS 39, as a matter of principle. With its publication, the IASB has concluded the project relating to the accounting treatment of financial instruments. IFRS 9 must be applied for the first time for financial years commencing on or after January 1st, 2018. Early application is permitted subject to local regulations (such as the European endorsement process).

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

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

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

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

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

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

(3) REPORTING DATE

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

(4) DATE OF AUTHORIZATION FOR ISSUE

The financial statements were approved for publication on March 25th, 2015. Authorisation was issued by the Executive Board before the financial statements were forwarded to the Supervisory Board for approval.

(5) CONSOLIDATION PRINCIPLES

SCOPE OF CONSOLIDATION

All subsidiaries in accordance with the principles of IAS 10 were included in the consolidated financial statements of Phoenix Solar AG. The scope of consolidation of the Phoenix Group has changed compared with December 31st, 2013, as presented below.

Besides parent company Phoenix Solar AG, the following companies – permanent subsidiaries and project subsidiaries – formed the scope of consolidation as of December 31st, 2014:

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

Project companies	Type of Consolidation	Share of equity/ voting rights
SOMI GmbH, Sulzemoos, Germany	Full consolidation	100 %
Exploris GmbH, Sulzemoos, Germany	Full consolidation	100 %
Grundstücksgesellschaft Jocksdorf II GmbH, Sulzemoos, Germany	Full consolidation	100 %
Scarlatti S.r.l., Eppan an der Weinstrasse, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
Sunpremier 2030 S.L., Madrid, Spain	Full consolidation	100 %
Bâtisolaire 3 SAS, Carpiquet, France	Full consolidation	100 %
Isla Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia ed Ambiente S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia zero Emissione S.r.l., Ragusa, Italy	Full consolidation	51 %
MAS Solar S.r.l., Ragusa, Italy	Full consolidation	51 %

A step-up transaction occurred in January 2014 to strengthen the equity structure of Phoenix Solar AG (parent company). This means that an intragroup transfer of the shares in the subsidiary Phoenix Solar Incorporated, San Ramon / USA, to an interim holding company was implemented as part of a non-cash capital contribution. To this end, Phoenix Solar AG acquired a shell company by the name of Phoenix Solar America GmbH, which is headquartered in Sulzemoos, Germany.

Phoenix Solar S.r.l., Rome, Italy, was deconsolidated at the end of the first quarter of 2014, owing to the Italian subsidiary's having filed for insolvency.

FE5 s.r.l., Milan, Italy, was deconsolidated in November 2014 due to the liquidation of this company. As a result of this deconsolidation, Phoenix Solar AG incurred losses of minor importance to its results of operations.

Except for the aforementioned companies, no changes have occurred to the scope of consolidation of Phoenix Solar AG since the start of 2014.

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

Company	Type of consolidation	Interest in equity/ voting rights	Eqity as of 31/12/2014 k€	Profit/loss 2014 k€
Phoenix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	Equity method	31.2 %	541	83

Several limited commercial partnership companies for which Phoenix Solar Fonds Verwaltung GmbH acts as general partner (without holding an equity interest in any case) are not consolidated, as the relevant provisions of the articles of incorporation of these companies do not allow the general partner to exert a controlling influence on them. Because the Group paid its full capital contribution and did not enter any further agreements to support the business purpose, it is not subject to any corporate law or contractual obligations to assume liability.

k€	Total assets 31/12/2014 (HGB)	Total liabilities 31/12/2014 (HGB)	Equity 31/12/2014 (HGB)	Period profit or loss 2014 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	238	3	235	39
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	239	3	236	41
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	237	3	234	41
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	227	3	224	38
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	237	3	233	42
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	232	3	228	40
Aktena 5 GmbH & Co. KG	1,067	911	157	– 31

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

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

An existing 50 percent interest in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG is included neither as a joint venture nor as an associate in the consolidated financial statements. Due to the absence of differing provisions in the articles of incorporation, Phoenix Solar AG, as limited partner, has no influence of any kind on the company's financial and operating policies.

Company k€	Type of consolidation	Share of equity/ voting rights	Equity as of 31/12/2012	Profit/loss 2012
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, & Co. KG, Gruenwald, Germany	n.a.	50 %	134	– 81

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

CONSOLIDATION PRINCIPLES

a) Subsidiaries

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

The purchase method is applied for business combinations. The cost of an acquisition is measured at fair value of the assets transferred, the equity instruments issued, and the liabilities assumed on the date when control is gained. On initial recognition, the identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured at fair value as of the acquisition date. If the acquisition cost is higher than the Group's proportionate share of the revalued net assets, the difference is recognised as goodwill in the consolidated balance sheet; in the rare instance where acquisition cost is less than the Group's proportionate share of revalued net assets, such difference is recognised immediately as a gain in profit or loss.

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

To enable the application of uniform accounting policies across the Group, the individual subsidiaries' recognition and measurement methods have been adapted to those of the Group.

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

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

In accordance with IFRS 10, gains or losses on intragroup transactions that are contained in the carrying amounts of assets are eliminated in full. An intragroup loss is regarded as an indication of possible impairment.

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

b) Companies consolidated for the first time
One subsidiary was added to the consolidation scope in the 2014 financial year.

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

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

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

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

B. ACCOUNTING POLICIES

(1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

REVENUE RECOGNITION

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

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

Revenues are presented on a net basis, before value added tax and after deduction of returns, rebates and discounts, and after elimination of intragroup transactions. They are measured according to payments received, or at the fair value of the receivable.

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

CONSTRUCTION CONTRACTS

Construction contracts are defined as customer orders that have not been completely filled. In accordance with IAS 11, the percentage-of-completion method is used to account for construction contracts, provided that the result can be estimated reliably. Accordingly, contract revenues and profits are recognised in the income statement in proportion to the stage of completion in the periods in which the work is performed. In other words, revenues and profits under fixed-price contracts are recognised on the basis of the stage of completion. They are recognised in proportion to the ratio of the internal and external costs incurred as of the reporting date, to the total estimated costs of each contract (cost-to-cost method).

In cases where contract revenue cannot be estimated reliably, revenues are recognised in the amount of costs incurred that can probably be recovered (zero profit method).

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

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

(2) INDIVIDUAL BALANCE SHEET ITEMS

INTANGIBLE ASSETS

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

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

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

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

GOODWILL

Goodwill is the amount by which the cost of an acquisition exceeds the purchased proportion of the fair values of identifiable assets and liabilities (including contingent liabilities) on the acquisition date. In application of IFRS 3 in combination with IAS 38, goodwill is not amortised. Recognised goodwill items were impairment tested at the end of the financial year; no impairment was identified in this context. For purposes of the impairment test, goodwill is allocated to the cash-generating units that are expected to derive economic benefits from the synergies arising from the underlying business combinations, regardless of whether other assets or liabilities have been assigned to these cash-generating units; the cash-generating units correspond to operating segments as the highest level.

PROPERTY, PLANT AND EQUIPMENT

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

Depreciation is charged on a straight-line basis pro rata temporis over the useful lives, which currently range from three to 20 years.

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

An impairment test is conducted when indications exist of possible impairment to the carrying amounts of intangible assets with definite useful lives, or of property, plant and equipment. In such cases, the recoverable amount of the corresponding asset is determined in order to gauge the extent of any impairment loss that might have been incurred. The recoverable amount is equivalent to fair value less costs to sell, or value-in-use, whichever is higher. Value-in-use is equivalent to the present value of the expected future cash flows. If no recoverable amount can be determined for an individual asset, it is measured for the smallest identifiable group of assets (cash-generating unit) to which the related asset can be attributed. For that purpose, the projected cash flows to be generated over the estimated useful life of the asset or cash-generating unit are estimated. The discount factor applied is determined based on the risks associated with the asset or cash-generating unit. The estimated cash flows reflect the assumptions made by the management, and are corroborated by external information sources. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised immediately in profit or loss. If the recoverable amount of an asset or cash-generating unit for which an impairment loss has been recognised is higher in subsequent periods, the previous impairment loss is reversed; the maximum carrying amount of an asset after reversal of an impairment loss is the amortised cost that would have resulted without an impairment loss. Such reversal of an impairment loss is recognised in profit or loss.

LEASES

Leases are classified as finance leases when substantially all the risks and rewards inherent in ownership of the leased asset transfer to the lessee. The Phoenix Group maintains no finance leases. As a consequence, all leases comprise rental leases or operating leases.

The rental and lease payments paid in connection with operating leases are determined once for the entire lease term, taking into account contractually stipulated future changes in lease instalments. This determination is made as of the date of lease inception. The corresponding payments are expensed straight-line over the entire term of the lease. If the original estimation of contractual elements (such as the exercise or non-exercise of a lease renewal option) changes during the lease term, such changes are recognised appropriately as a change of estimates.

Phoenix companies rent buildings, company cars, and operational and business equipment for their own use. These rental and lease agreements constitute operating leases, and in the case of buildings carry terms ranging from one to 12 years. The terms for company cars and photocopiers range from one to four years.

OTHER INVESTMENTS

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

INVENTORIES

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

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

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

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

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

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

PREPAYMENTS RENDERED

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

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The following categories are applied for this purpose:

- Held-for-Trading (HfT) assets and liabilities are measured at fair value. If no market value is available, the fair value is determined with the aid of adequate measurement methods, such as discounted cash flow methods, for example. In the Phoenix Group, such financial instruments occur only in connection with hedging transactions (derivatives). Measurement gains or losses are recognised immediately in profit or loss.
- Held-to-Maturity (HtM) financial investments are measured at amortised cost. These do not exist within the Phoenix Group.
- Loans and Receivables (LaR) that are not held for trading purposes are measured at fair value on initial recognition, as a matter of principle, and at amortised cost in subsequent periods. Such assets in the Phoenix Group include all receivables due from customers, other receivables, and loans. Non-interest-bearing and low-interest receivables due in more than one year are discounted to present value applying the effective interest method, as a matter of principle. A risk-appropriate, standard market rate of interest was applied as the discount factor. Specific write-downs are charged – if necessary up to the full amount – against receivables that are expected to default, taking into account credit risks, interest rate risks and discount risks. General credit risk is reflected by applying write-downs based on past empirical data against the receivables portfolio, as a matter of principle. Necessary impairment losses are reported through impairment accounts. The calculation of required impairment losses is based on analyses of overdue status and other objective indications or indices (payment difficulties on the part of customers, applications for insolvency etc).
- Available-for-Sale (AfS) financial assets are measured at fair value, as a matter of principle. All financial assets not classified as HtF, HtM or LaR are assigned to this category, as a matter of principle; in the Phoenix Group, this category is mainly composed of the assets presented under "Other investments". The difference between acquisition cost and fair value is recognised directly in equity, taking deferred tax into account. If such assets' fair value is permanently or materially less than their carrying amount, the impairment loss is recognised in profit or loss. Other investments for which no market prices are available and whose fair value cannot be determined reliably are measured at amortised cost. Given indications of impairment, an impairment test is conducted, and any impairment loss is recognised in profit or loss.

- Financial liabilities measured at amortised cost (AmC) are measured at acquisition cost on initial recognition. In subsequent periods, such liabilities (except derivative financial instruments) are measured at amortised cost, which is usually equal to the repayment amount.

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS
The Phoenix Group deploys various derivative financial instruments to hedge existing or planned underlying transactions against currency risks, interest rate risks and market price risks. The most important of these derivative financial instruments include forward exchange transactions, currency swaps and currency options, and interest rate swaps and interest rate caps. No derivative financial instruments are held or issued for speculative purposes.

In accordance with IAS 39, derivative financial instruments that are not integrated within an effective hedging relationship must be categorised as "held for trading", and consequently measured at fair value at the trade date, with fair value changes recognised in profit or loss. The fair value of traded derivative financial instruments is equivalent to market value. As a matter of principle, the Phoenix Group deploys only exchange traded derivative financial instruments. If market pricing is not possible, and consequently no market values are available, however, current market values are calculated by means of recognised finance-mathematical models, taking into account relevant exchange rates, interest rates and counterparty credit ratings. Middle market exchange rates are applied for such calculations. The Phoenix Group does not employ hedge accounting at present, so that changes in fair value of derivative financial instruments are recognised immediately in profit or loss.

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

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

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

The changes in cash and cash equivalents according to IAS 7 are presented in the cash flow statement.

SUBSCRIBED CAPITAL AND CAPITAL RESERVES
Equity instruments without auxiliary conditions are always reported as equity.

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

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

All stock option plans are described in note (41).

NON-CONTROLLING INTERESTS
In accordance with IAS 27, non-controlling interests are presented as a separate line item within equity in the consolidated balance sheet. Proportionate losses are charged to the respective non-controlling interests in proportion to their share of Group equity, even if this results in a negative balance for non-controlling interests.

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

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

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

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

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

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

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

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

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

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

NON-FINANCIAL LIABILITIES
As a matter of principle, liabilities are measured at fair value, which is equal to the settlement amount in most cases. Liabilities due in more than one year are discounted to present value applying the effective interest method.

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

CONTINGENT LIABILITIES/ASSETS

Contingent liabilities are defined as possible obligations to third parties, where the existence of such obligations depends, however, on the occurrence of one or more uncertain future events that cannot be completely influenced. They also include existing obligations that will probably not lead to an outflow of economic benefits, or where the amount of such an outflow cannot be reliably measured. Pursuant to IAS 37, contingent liabilities relating to the operating business are not to be recognised on the balance sheet.

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

TAXES ON INCOME

a) Current taxes

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

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

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

When taxes refer to line items that have been directly credited to, or charged against equity, in accordance with IFRS requirements, such taxes are also recognised directly in equity.

b) Deferred taxes

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

Deferred tax assets and deferred tax liabilities are measured with reference to the tax rates that are expected to be in effect when an asset is realised or a liability settled. Deferred taxes are measured applying tax rates and tax regulations which prevail on the balance sheet date, or which have essentially been approved legislatively, and which are expected to apply as of the date when deferred tax assets are realised, or when deferred tax liabilities are settled.

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

Deferred taxes are recognised as income or expenses and in profit or loss for the period.

The following transactions comprise exceptions to this:

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

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

Deferred tax assets and deferred tax liabilities are netted only when one of the Phoenix companies has a legally enforceable right to settle on a net basis, and when they are levied by the same taxing authority on the same entity and the terms of the assets and liabilities are congruent.

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

(3) APPROPRIATION OF EARNINGS

To the extent that the Phoenix Group makes its proposals concerning the utilisation of profit or specific dividends accessible to the public after the reporting date, such dividends are not presented as a liability as of the reporting date, because this relates to an event that is not to be taken into consideration.

(4) FOREIGN CURRENCY TRANSLATION

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

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

Exchange rates applied in the consolidated financial statements:

Currency pair	Exchange rate on reporting date 2014	Average exchange rate in 2014	Exchange rate on reporting date 2013	Average exchange rate in 2013
USD/EUR	1.21548	1.32898	1.37660	1.32797
OMR/EUR	0.46650	0.51006	0.52841	4.16717
SGD/EUR	1.60806	1.68250	1.74583	1.66097
MYR/EUR	4.25182	4.34495	4.53086	4.16717
SAR/EUR	4.56043	4.98396	5.16233	4.97886
BGN/EUR	1.95506	1.95873	1.95506	1.95873

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

(1) PROFIT/LOSS FROM DISCONTINUED OPERATIONS

With an agreement dated August 6th, 2014, Phoenix Solar AG sold its Operation & Maintenance (O&M) activities in Europe to SMA Solar Technology AG. Confidentiality was agreed concerning the contents of the agreement. The agreement became effective and was implemented at the end of October. The disposal proceeds were utilised to repay debt and strengthen the core operating business.

The possibility of a sale had been considered since the end of 2013. Over the course of 2013, the company examined the extent to which this business area could retain its significance within the further development of the strategy of Phoenix Solar AG. Three aspects prompted considerations to sell this business: the discontinuation in the first quarter 2013 of the project business that was operated from Germany and the resultant lack of growth in new business for the O&M area, a fall in growth in the construction of large-scale photovoltaic power plants by the European subsidiaries, and a lack of synergies with the O&M activities at the subsidiaries in Asia and the USA. The good profitability of these operations suggested that they could be transferred successfully to another market participant. They exhibit a high level of stability due to a contractual base comprising some long contractual durations, as well as a motivated team of staff that ensures that the operating activities function extremely well. The O&M activities that are independently managed by subsidiaries, especially in the USA and Asia, are unaffected by the sale. Instead, it is more likely that their O&M business will be expanded as part of EPC projects that are to be realised in the future.

As a consequence, as of December 31st, 2014, the German area of the O&M business is to be treated as discontinued operations, while the remaining Group business areas are regarded as continuing operations.

The remaining presentations in the consolidated financial statements relate to both the discontinued operations and the continuing operations.

The assets and liabilities that are attributable to the discontinued operations were reported separately as held for sale in the consolidated balance sheet as of September 30th, 2014, and measured at the lower of carrying amount and fair value. The net result is reported under discontinued operations in the consolidated statement of comprehensive income.

The result from the discontinued operations amounts to kEUR 4,281 (2103: kEUR 688) and is composed as follows:

k€	01/01/2014 – 31/10/2014	01/01/2013 – 31/12/2013
Revenues	4,091	5,099
Other operating income	4,836	186
Costs and expenses	– 3,087	– 4,347
Earnings before tax (EBT)	5,840	938
Taxes on income	1,559	250
Earnings after tax	4,281	688
Profit/loss from discontinued operations after income taxes	**4,281**	**688**

The "O&M" operating segment was sold with effect as of November 1st, 2014 (closing date: October 31st, 2014), and eliminated as of this date. Phoenix Solar AG generated income from discontinued operations of EUR 4.5 million from this disposal, which are reported under the other operating income of the discontinued operations.

(2) REVENUES

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

Revenues k€	2014	2013
Components and Systems	17,325	56,713
Power plant	16,458	84,510
Total	**33,783**	**141,223**

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

As of the reporting date, total revenues included revenues from long-term construction contracts (according to IAS 11), which had not yet been finally invoiced, in the amount of kEUR 12,557 (previous year: kEUR 70,357).

(3) CHANGE IN WORK-IN-PROGRESS ORDERS

This item presents the change in work in progress for those projects that are not to be classified as customer-specific contract constructions according to IAS 11. As of the reporting date, the increase in work in progress amounted to kEUR 0 (previous year: kEUR 0).

(4) OTHER OPERATING INCOME

Other operating income k€	2014	2013
Income from payment of claims for damages	2	12
Benefits in kind	48	85
Income from the divestiture of business operations	4,533	0
Income from the release of provisions and liabilities	2,539	1,963
Electricity revenues	2,080	2,254
Income from disposal of property, plant and equipment	128	8
Income from reversal of write-downs	819	164
Income from foreign exchange gains	154	125
Other	1,391	830
Total	**11,694**	**5,441**

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

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

The income from the release of provisions and liabilities pertained to a large number of provisions formed in previous years that have not been fully consumed. During the financial year at Phoenix Solar AG, primarily provisions for warranties were released in an amount of kEUR 1,561 due to settlement agreements that had been included, as well as in an amount of kEUR 346 due to the related warranties having ex-pired.

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

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

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

(5) PURCHASED GOODS AND SERVICES

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

Purchased goods and services k€	2014	2013
Expenses of purchased goods	24,276	105,044
Expenses of purchased services	3,774	14,542
Total	**28,050**	**119,586**

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

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

(6) PERSONNEL EXPENSES

The personnel expenses are composed as follows:

Staff costs **k€**	**2014**	**2013**
Wages and salaries	8,110	12,662
Social security	1,465	1,889
Expenses for pensions and other benefits	3	27
Total	**9,578**	**14,578**

Since July 1st, 2008, the company has offered all its employees a defined contribution pension plan based on deferred compensation. The company makes matching payments on the contributions of the participating employees in accordance with the regulations of tax law and social security law. An employer's contribution of kEUR 3 (previous year: kEUR 27) was recognised in profit and loss in the financial year elapsed. The Group has not entered into any defined benefit pension commitments.

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

Further personnel adjustments were required at the parent company in the context of the discontinuation of the pilot phase to implement new business models in the residential homes area in Germany. As far as possible, these measures were conducted in a socially acceptable manner on the basis of mutually agreed severance agreements. Severance costs of kEUR 543 had been incurred by the end of the 2014 financial year as a consequence. Personnel expenses as of the previous year's reporting date include restructuring expenses totalling kEUR 1,928 that resulted from the closure of loss-making areas in the domestic business.

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

Employees (m/w)	**2014**	**2013**
Executive Board members (parent company)	2	2
Permanent staff (m/f) (full-time and part-time)	111	149
Temporary help staff	5	8
Total	**118**	**159**

(7) AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation and depreciation amounted to kEUR 1,569 in the financial year under review (previous year: kEUR 1,663).

Impairment losses of kEUR 63 related mainly to the impairment of licences as part of the discontinuation of the new business models in Germany, and the related shutdown of the ERP system.

A detailed presentation of depreciation and amortisation can be found in the statement of changes in noncurrent assets (note (16)).

(8) OTHER OPERATING EXPENSES

Other operating expenses k€	2014	2013
Administrative costs	5,501	5,969
Selling and marketing costs	2,878	3,636
Operating costs	529	843
Miscellaneous expenses	2,027	1,840
Total	**10,935**	**12,288**

The kEUR 1,625 decline in other operating expenses is mainly due to the implementation of further cost-reducing measures across the entire Group.

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

Selling and marketing costs are composed of both direct sales expenses related to the realisation of the sales function, primarily for sales commissions, packing for shipping, transport and transport insurance, freight, product-related and order-related market research, customer consulting services and preparation of offers, as well as overhead sales expenses such as expenses of market research, advertising and promotion, including the participation in exhibitions and trade fairs, customer consulting services, warehousing, sales offices, enquiry and order processing, calculating quotations, statistics, invoicing, the invoice reminder function, as well as management of the overall process.

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

No research and development costs were expensed during the 2014 financial year (previous year: kEUR 26).

(9) RESULT FROM ASSOCIATED COMPANIES

Income from associated companies amounted to kEUR 39 in the financial year (previous year: kEUR 68).

(10) FINANCIAL RESULT

The financial result worsened only slightly, by kEUR 73, year-on-year. Interest expenses of kEUR 5,271 (previous year: kEUR 5,210) consisting mainly of financing loans were offset by interest income of kEUR 146 (previous year: kEUR 158) generated primarily by call accounts. No interest on qualified assets was capitalised, either in financial year or in the prior year.

(11) TAXES ON INCOME

Current and deferred tax expenses and income are comprised as follows:

Taxes on income k€	2014	2013
Current taxes	681	1,695
Deferred taxes	– 255	1,152
Total	**426**	**2,847**

The income tax expenses reported in the 2014 financial year amounting to kEUR 426 (previous year: kEUR 2,847) are kEUR 3,027 lower than the expected income tax revenues of kEUR 2,601 (previous year: kEUR 1,724) that would theoretically result from applying an unchanged domestic tax rate of 26.7 percent (previous year: 26.7 percent) to the Group's pre-tax earnings.

k€	2014	2013
Current-year income taxes	278	720
Prior years' income taxes	403	975
Total	**681**	**1,695**

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

Reconciliation k€	2014	2013
Earnings before income taxes	– 9,741	– 6,459
Reported tax expense	**426**	**2,847**
Income taxes computed applying arithmetic tax rate of 26.7% (previous year: 26.7%)	– 2,601	– 1,724
Difference	**3,027**	**4,571**
Clarification of differences:		
- Income taxes relating to other reporting periods	403	– 868
- Tax effect deriving from differing tax rates	– 2,958	0
- Tax effect arising from other non-deductible expenses	179	326
- Tax effect deriving from differing tax rates	– 399	– 164
- Tax effect arising from the application of tax losses (–) that were not previously recognised, and from the non-recognition of losses (+)	3,223	3,974
- Tax effect due to differing tax measurement bases	– 156	– 24
- Tax effect arising from consolidation	2,745	– 412
- Other differences	9	3
Total	**3,027**	**4,571**

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

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

CURRENT TAX LIABILITIES AND TAX REFUND ASSETS

The net balance as of the balance sheet date comprises current tax receivables in an amount of kEUR 791 (previous year: kEUR 1,126), and current tax liabilities of kEUR 54 (previous year: kEUR 744).

Income tax expenses and income are composed as follows:

Taxes on income k€	2014	2013
Current taxes	681	1,695
- of which in Germany	327	582
- of which abroad	354	1,113
Deferred taxes	– 255	1,152
- of which in Germany	27	0
- of which abroad	– 282	1,152
Total	**426**	**2,847**

Deferred are attributed to the following balance sheet items:

Deferred taxes by item k€	Balance as of 01/01/2014	Deferred tax expense	Balance as of 31/12/2014
Capitalised loss carryforwards	828	59	769
Measurement of provisions	125	2	123
Internally generated intangible assets	3	21	24
PoC measurement of construction contracts	1	0	1
Measurement of other assets	0	– 240	240
Other/consolidation	– 42	– 97	– 139
Total	**991**	**– 255**	**1.246**
- of which current	457		610
- of which noncurrent	534		636

Overall, no deferred taxes were offset with each other (previous year: kEUR 0). All changes in deferred taxes were recognised in profit or loss, both in the financial year under review and in the previous year.

Taking into account temporary differences that are expected to reverse, kEUR 769 of deferred tax assets were formed for losses generated (previous year: kEUR 828). Tax losses of kEUR 145,891 (previous year: kEUR 138,987), which must be generated by way of taxable earnings at individual company level during the years 2015 to 2017, have been derecognised for the time being as the Group remains in a restructuring phase, and consequently first needs to confirm its new planning. After consolidation measures, deferred tax assets after offsetting amount to kEUR 1,246 as of the balance sheet date (previous year: kEUR 991).

Loss carryforwards with a maximum expiration period of five years were recognised in the amount of kEUR 247 (previous year: kEUR 140); loss carryforwards with a maximum expiration period of 20 years were recognised in the amount of kEUR 522 (previous year: kEUR 688).

As in the previous two years, no deferred taxes were formed in the financial year under review for outside basis differences, as the majority of the subsidiaries possessed no distributable net assets as of the balance sheet date. Where distributable profits exist at subsidiaries, they are currently being deployed for the internal financing of the respective subsidiary. Outside basis differences were measured in an amount of kEUR 6,657 as of December 31st, 2014 (previous year: kEUR 6,767).

(12) EARNINGS PER SHARE

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

Basic earnings per share	2014	2013
Consolidated profit after taxes, in k€	– 10,170	– 10,688
in issue (number of individual shares)	7,372,700	7,372,700
Basic earnings per share (in €)	**– 1.38**	**– 1.45**

For purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the number of potentially dilutive shares. The number of potentially dilutive shares is calculated by determining the hypothetical number of bonus shares that would have to be granted on the basis of the ratio of the share price to the exercise price. The Phoenix Solar Group stock option plan potentially results in such dilution. The exercise of the stock options granted in connection with these plans depends on the price performance of the shares of Phoenix Solar AG. Certain performance criteria that are defined in the stock option plan are applied to calculate the share price performance. Note (40) includes a detailed description of the Phoenix Group's stock option plan. The following table shows the underlying calculation of potential dilution. As effects arising from potentially diluted shares arose neither in 2013 nor in the previous year, basic earnings per share do not differ from diluted earnings per share.

Diluted earnings per share	2014	2013
Consolidated profit after taxes, in k€	– 10,170	– 10,688
Average number of shares in issue (number of individual shares)	7,372,700	7,372,700
Average number of shares in issue (including potentially diluting shares)	7,372,700	7,372,700
Diluted earnings per share (in €)	**– 1.38**	**– 1.45**

As of December 31st, 2014, after partial utilisation authorised capital existed in the amount of kEUR 2,681 (previous year: kEUR 2,681), which is unchanged from the previous year and which was not included in the calculations, however, as no dilutive effect arises from it during the period under review.

The consolidated loss incurred in 2014 has been added to accumulated other comprehensive income as of December 31st, 2014. In this year, too, the Executive Board of Phoenix Solar AG does not propose the distribution of a dividend.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(13) INTANGIBLE ASSETS

The consolidated statement of changes in noncurrent assets shows the changes in the carrying amounts of noncurrent assets (note (16)).

Amortisation is reported under the "depreciation and amortisation" item in the income statement.

Significant intangible assets k€	**Carrying Amount as of 31/12/2014**	**Carrying Amount as of 31/12/2013**	**Remaining amortisation period**
of ERP software	309	403	2 years
"Phoenix" Trademark	64	95	3 years
Development costs	0	117	

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

Acquired intangible assets are amortised applying useful lives of between two and 15 years.

(14) GOODWILL

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

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

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

Goodwill k€	**31/12/2014**	**31/12/2013**
Power Plants	272	272
Components & Systems	0	0
Other	26	26
Total	**298**	**298**

In accordance with IFRS 3 in conjunction with IAS 38, goodwill is not amortised. Instead, an annual impairment test is conducted to review whether goodwill has retained its value. In addition, the carrying amounts of cash-generating units are compared with their capitalised value of potential earnings. The capitalised value of potential earnings is calculated applying the discounted cash flow method. For this purpose, current forecasts are applied which are largely underpinned by external data on market growth, and which are based on the three-year medium-term plan approved by management, and which are also used for internal purposes. Significant assumptions on which the management bases its calculation of recoverable amounts include forecasts of relevant market volumes, market prices and availability of solar modules, inverters and other articles in connection with the company's product range as well as regulatory conditions, growth rates and capital costs. The expected cash flows in the three-year medium-term planning deriving from the individual cash-generating units (CGUs) are discounted in each case applying the country-specific weighted average cost of capital before tax (pre-tax WACC). Country-specific tax rates are applied for this purpose. An unchanged growth factor of one percent was imputed to calculate the perpetual return. An impairment loss is deemed to have occurred when the capitalised value of potential earnings is less than the carrying amount.

(15) PROPERTY, PLANT AND EQUIPMENT

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

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

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

(16) CONSOLIDATED STATEMENT OF CHANGES IN NONCURRENT ASSETS

Changes in Noncurrent assets within the Phoenix Group

	Acquisition or production costs					
2014 **k€**	**Balance as of 01/01**	**Reclassifi-cation**	**Addition Financial year**	**Disposal Financial year**	**Currency Translation**	**Balance as of 31/12**
Internally generated intangible assets	128	0	0	0	3	131
Acquired intangible assets	6,692	0	19	640	0	6,071
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	0	15,069
Operational and business equipment	3,798	0	869	769	48	3,946
Leasehold improvements	1,284	0	0	0	0	1,284
Total Noncurrent assets	**27,504**	**0**	**888**	**1,409**	**51**	**27,034**
2013 **k€**	**01/01/**					**31/12/**
Internally generated intangible assets	109	0	19	0	0	128
Acquiredintangible assets	6,679	0	15	2	0	6,692
Goodwill	533	0	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	0	15,069
Operational and business equipment	4,215	0	852	1,250	– 19	3,798
Leasehold improvements	1,284	0	0	0	0	1,284
Total Noncurrent assets	**27,889**	**0**	**886**	**1,252**	**– 19**	**27,504**

(17) INVESTMENTS IN ASSOCIATES

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

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

k€	**2014**	**2013**
Carrying amount at 01/01	397	397
– Dividend payment	39	68
+ Profit shares	39	68
Carrying amount at 31/12	**397**	**397**

Accumulated Amortisation and Depreciation								
Balance as of 01/01	Reclassification	Addition Depreciation/ amortisation	Addition Impairment loss	Disposal Financial year	Currency Translation	Balance as of 31/12	Carrying amounts 31/12/2014	Carrying amounts 31/12/2013
125	0	0	0	0	6	131	0	3
5,901	0	362	64	628	0	5,699	372	791
235	0	0	0	0	0	235	298	298
1,183	0	786	0	0	0	1,969	13,100	13,886
2,899	0	357	0	676	29	2,610	1,336	899
942	0	0	0	0	0	942	341	341
11,285	**0**	**1,505**	**64**	**1,304**	**35**	**11,585**	**15,448**	**16,218**
01/01						**31/12**	**31/12/2013**	**31/12/2012**
109	0	16	0	0	0	125	3	0
5,500	0	401	0	0	0	5,901	791	1,179
235	0	0	0	0	0	235	298	298
761	0	422	0	0	0	1,183	13,886	14,308
3,398	– 1	679	0	1,165	– 12	2,899	899	817
796	1	145	0	0	0	942	341	487
10,799	**0**	**1,663**	**0**	**1,165**	**– 12**	**11,285**	**16,218**	**17,089**

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

Summarised financial information about associates **k€**	**2014**	**2013**
Assets	546	592
Liabilities	5	7
Revenues	168	153
Equity*	541	585
Total assets	546	592
Net profit for year	**83**	**68**

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

(18) OTHER INVESTMENTS

The “other investments” item in the financial year under review contains only the 50-percent interest in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. In 2014, it reported assets of kEUR 453 (previous year: kEUR 549), liabilities and provisions of kEUR 319 (previous year: kEUR 334), sales revenue of kEUR 0 (previous year: kEUR 0) and a pre-tax result of kEUR - 6 (previous year: kEUR - 70). Other investments are not consolidated due to a lack of effective significant influence.As no active market exists for trading in the investment, and fair value can also not be measured reliably by other means, the carrying amount of kEUR 150 (previous year: kEUR 150) corresponds as far as possible to fair value. No intention currently exists to sell the investment.

(19) NONCURRENT RECEIVABLES

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

This item also included rental deposits in the amount of kEUR 24 (previous year: kEUR 36). The rental deposits incur interest at standard market rates of 0.1 percent p.a..

(20) INVENTORIES

Inventories are comprised as follows:

Inventories **k€**	**31/12/2014**	**31/12/2013**
Merchandise (historical value of goods)	3,454	6,693
Write-downs (cumulative)	– 1,387	– 3,610
Net merchandise value	2,067	3,083
Valuation recognised on balance sheet	**2,067**	**3,083**

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

Based on the estimation of the Executive Board that certain sales revenues will probably be lower than acquisition costs, such inventories were written down to their lower net realisable value less costs to sell. Write-downs during the financial year in an amount of kEUR 233 were added to cumulative write-downs (previous year: kEUR 718).

Purchased merchandise was expensed in an amount of kEUR 24,336 in the period under review (previous year: kEUR 105,067).

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

(21) PREPAYMENTS RENDERED

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

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

As of the reporting date, gross receivables under long-term construction contracts amounted to kEUR 1,026 (previous year: kEUR 5,354). The receivables relate predominantly to projects in the USA, Thailand, Singapore and France. Contract revenues were recognised totalling kEUR 12,557 (previous year: kEUR 61,726), contract costs of kEUR 11,627 (previous year: kEUR 52,982), and profits of kEUR 1,407 (previous year: kEUR 8,744). Profits in the year under review included no foreign currency effects (previous year: kEUR 0). In addition, liabilities under long-term construction projects were recognised in the amount of kEUR 346 (previous year: kEUR 2,401).

Prepayments on the contracts totalling kEUR 15,226 (previous year: kEUR 58,015) were received, and a further kEUR 47 (previous year: kEUR 1,004) were requested.

Taking into account the requested and recognisable prepayments and partial invoices, the reported amount of kEUR 1,026 (previous year: kEUR 5,354) is composed as follows:

k€	31/12/2014	31/12/2013
Receivables under long-term construction contracts taking into account partial invoices based on stage of completion	908	5,136
Plus requested, recognisable partial invoices	118	218
Valuation recognised on balance sheet	**1,026**	**5,354**

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

k€		Expected Receipt of Payment			
As of 31/12/2014	**Carrying amount**	**In fewer than als 30 days**	**Between 31 and 90 days**	**Between 91 and 360 days**	**In more than 360 days**
Receivables under long-term construction contracts	1,026	0	569	457	0
As of 31/12/2013					
Receivables under long-term construction contracts	5,354	2,917	363	2,074	0

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

(23) TRADE RECEIVABLES

Trade receivables are composed as follows:

Trade receivables k€	31/12/2014	31/12/2013
Gross receivables	15,090	18,755
Less write-downs	– 4,733	– 5,337
Valuation recognised on balance sheet	**10,357**	**13,418**

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

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

k€		Not written down and due on reporting date				
As of 31/12/2014	**Total**	**neither written down nor due**	**for less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**for over 360 days**
Trade receivables	**10.357**	2.782	1.649	1.092	242	4.593
As of 31/12/2013						
Trade receivables	**13,418**	113	81	2,841	10,388	0

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

k€	2014	2013
Write-downs as per 01/01	5,337	4,994
Consumption	– 488	– 979
Release	– 893	– 318
Addition	777	1,640
Write-downs as per 31/12	**4,733**	**5,337**

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

k€	2014	2013
Expenses for the derecognition of receivables	890	145

Expenses for the derecognition of receivables are recognised at the time when the receivable is deemed to be definitively uncollectible. Final uncollectibility is assumed at the time when the Group attains knowledge of proportionate fulfilment from an insolvency estate.

(24) OTHER FINANCIAL ASSETS

a) Other noncurrent financial assets

Phoenix Solar AG granted its participating interest SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG a final maturity loan of kEUR 1,047 at 6.5 percent interest until September 30th, 2012, and with a term until the end of 2013. This loan was paid down to an amount of kEUR 114 by December 31st, 2014. On the basis of an agreement reached in December 2012 the interest rate was reduced to 0.0 percent from October 1st,2012.

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

b) Other current financial assets

Other current financial assets are composed as follows:

Other current financial assets k€	31/12/2014	31/12/2013
Other receivables	1,634	4,640
Prepayments	1,699	3,112
Debit balances in supplier accounts	247	616
Miscellaneous	5	491
Total	**3,585**	**8,859**

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

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

k€		Expected receipt of payment			
As per 31/12/2014	**Carrying amount**	**In less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**In over 360 days**
Financial assets	3,585	60	2,121	1,036	368
Residual term up to 1 year	3,217	60	2,121	1,036	0
Residual term longer than 1 year	368	0	0	0	368
As per 31/12/2013					
Financial assets	9,006	4,219	120	4,520	147
Residual term up to 1 year	8,859	4,219	120	4,520	0
Residual term longer than 1 year	147	0	0	0	147

(25) INFORMATION ON FINANCIAL INSTRUMENTS BY CATEGORY

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

2014 k€	Measurement category per IAS 39*	Carrying amounts	Carrying amounts within the scope of IFRS 7	Fair value
Other investments	AfS	151	151	151
Non-current receivables	LaR	474	474	474
Other non-current financial assets	LaR	138	138	138
Receivables from long-term construction contracts	LaR	1,026	1,026	1,026
Trade receivables	LaR	10,357	10,357	10,357
Other current financial assets	LaR	3,585	3,585	3,585
Cash and cash equivalents	LaR	3,114	3,114	3,114
Total assets		**18,845**	**18,845**	**18,845**
Non-current financial liabilities	AmC	38,590	38,590	39,766
Current financial liabilities	AmC	1	1	1
Total financial liabilities		**38,591**	**38,591**	**39,767**
Liabilities arising from long-term construction contracts	AmC	346	346	346
Trade payables	AmC	2,469	2,469	2,469
Other financial liabilities		1,085	1,085	1,085
Total financial liabilities		**3,900**	**3,900**	**3,900**

* AfS: Available-for-Sale; LaR: Loans and Receivables; HfT: Held-for-Trading; AmC: Amortised Cost. For a description of measurement categories, please see note (2) „Non-derivative financial instruments" for a description of measurement categories.

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

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

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

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

The fair value of loans and receivables, held-to-maturity financial investments and non-derivative liabilities is calculated as the present value of future cash inflows or outflows. These cash flows are discounted to present value by applying an appropriate discount factor for the relevant maturity, updated at the reporting date, taking into account the counterparty's credit rating. Exchange-listed prices are applied as fair value, where available.

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

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

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

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

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

(26) OTHER NON-FINANCIAL ASSETS

Other non-financial assets of kEUR 6,376 (previous year: kEUR 7,411) primarily comprise foreign VAT receivables in an amount of kEUR 4,827 (previous year: kEUR 3,619).

(27) CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents k€	31/12/2014	31/12/2013
Cash on hand	1	2
Cash at banks	3,113	10,027
Total	**3,114**	**10,029**

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

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

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

(28) EQUITY

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

The share capital on December 31st, 2014 amounted to kEUR 7,372.7 (previous year: kEUR 7,372.7), which was divided into 7,372,700 (previous year: 7,372,700) no-par bearer shares (ordinary shares), and which was fully paid in as of the consolidated balance sheet date.

In addition, the Executive Board was authorised to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,686,350.00 by issuing up to 3,686,350 new bearer shares in exchange for cash and/or in-kind capital contributions on one or more occasions in the time until July 13th, 2016 (Authorised Capital 2011). A subscription right must be granted to the shareholders, as a general rule.

The new shares may also be underwritten by one or more banks, with the obligation to offer them to the shareholders for subscription.

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

a) in order to issue the new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock market price of the company's shares endowed with the same rights. This authorisation is nevertheless subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorisation under exclusion of subscription rights pursuant to Sections 203 (1), 186 (3) Clause 4 of the German Stock Corporation Act (AktG) does not exceed 10 percent of the company's share capital at the time when the present authorisation takes effect, or when it is exercised, whichever is lower. The percentage of share capital comprised of shares that are sold during the term of this authorisation pursuant to Sections 71 (1), No. 8 Clause 5, 186 (3) Clause 4 of the German Stock Corporation Act (AktG), and the percentage comprised of shares that are, or are to be, issued to service option or conversion rights, or to fulfil option or conversion rights arising from bonds, are to be counted towards this maximum limit of ten percent of the share capital provided that the bonds are issued during the term of this authorisation under exclusion of subscription rights in analogous application of Section 186 (3) Clause 4 of the German Stock Corporation Act (AktG);

b) in order to implement capital increases against non-cash capital contributions, especially for the purpose of acquiring companies, parts of companies, and/or interests in companies. This authorisation is nevertheless limited to the extent that the number of shares issued under exclusion of subscription rights after the exercise of this authorisation, or another authorisation granted by the Shareholders' General Meeting (including the authorisations defined in sections a and c of the present resolution), does not exceed twenty percent of the share capital at the time when this authorisation takes effect, or when it is exercised, whichever is lower;

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

The capital reserve consists of issue premiums paid in connection with capital increases and the recognition of stock options. The eighth capital increase that was conducted on July 13th, 2010 at a placement price of € 32.00 per share raised gross issue proceeds of kEUR 21,446.4. After deduction of the kEUR 670.2 that was appropriated to share capital, and the net capital increase costs of kEUR 314.7, the capital reserves were increased by kEUR 20,461.5. An additional amount of kEUR 33.0 consisting of premiums resulting from the exercise in the 2010 financial year of 1,800 stock options issued in 2007 was recognised; no stock options were exercised in the years 2011 to 2013, nor in 2014.

The Annual General Meeting of July 7th, 2006 passed a resolution to introduce a stock option plan for members of the Executive Board, members of the senior management of Group companies, and other selected senior managers and key employees of the company. Conditional Capital of kEUR 553 was created for this purpose. As part of this authorisation, the Executive Board of Phoenix Solar AG established a Stock Option Plan on September 10th, 2007 ("Stock Option Plan 2006"; "SOP 2006" as an abbreviation for "Stock Option Plan 2006"), under which a total of 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 279,850 of those stock options had expired due to the individuals concerned having left the company, and 18,000 had been exercised. As a consequence, 42,500 stock options exist as of the reporting date. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company has not been terminated by either party at the time of exercise of the stock options. The stock option plan was terminated following a resolution passed by the Annual General Meeting on July 14th, 2011, and the Conditional Capital was duly cancelled.

The company is refraining from paying a dividend for the 2014 financial year as the result of a resolution passed by the Executive Board.

Accumulated other comprehensive income reported the following changes in the 2014 financial year:

k€	
Balance at 01/01/2014	– 65,949
Currency difference	827
Change to consolidation group	138
Consolidated loss for period	– 10,170
Balance at 31/12/2014	**– 75,154**

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

INFORMATION ABOUT CAPITAL MANAGEMENT

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

The Executive Board's aim and principle is to provide the liquidity that the Group requires for its operating business and planned growth, and to thereby ensure compliance with the covenants relating to the credit lines provided as part of the syndicated financing facility (please see the following section for more information about the syndicated financing facility).

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

The Group equity ratio stood at - 3.7 percent as of December 31st, 2014 as a result of the loss-making situation over the past years (December 31st, 2103: 11.0 percent). As the Group does not comprise an legally independent company itself, this negative equity ratio generates no going concern risk for the Group.

Solely the equity of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code [HGB]), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 11.0 million as of December 31st, 2014, equivalent to a 20.0 percent equity ratio (December 31st, 2013: EUR 4.2 million, equivalent to a 10.1 percent equity ratio). The increase in the parent company's equity arises mainly from an intragroup transfer of shares in the subsidiary Phoenix Solar Incorporated, San Ramon/USA, to an intermediate holding company as part of a non-cash capital contribution, as well as from the divestiture of the own O&M business.

In early November 2014, Phoenix Solar AG concluded an agreement with its syndicate of financing banks. This agreement adapts the existing financing to reflect the reduction in operative planning, and extends it until September 30th, 2016. The new financing facility has a volume totalling around EUR 116 million (December 31st, 2103 EUR 126 million), and consists of a syndicated loan of almost EUR 93 million (December 31st, 2103 almost EUR 96 million), as well as other bilateral cash and guarantee credit lines. The scope of financing amounted to EUR 113 million as of December 31st, 2014. The reduction is primarily attributable to the repayment of credit lines, including as part of the O&M disposal, and contractually agreed adjustments to guarantee credit lines. In the context of the extended financing and its underlying corporate planning, a decision was also taken to end the pilot phase of implementing new business models in the residential homes area in Germany, and to discontinue this activity without creating a replacement for it. This measure has already been implemented.

(29) FINANCIAL LIABILITIES

Financial liabilities are presented in the following balance sheet items:

Financial liabilities k€	31/12/2014	31/12/2013
Non-current financial liabilities (residual term more than 1 year)	38,590	40,330
Current financial liabilities (residual term up to 1 year)	1	4
Total	**38,591**	**40,334**

Owing to the contractual amendment signed on February 11th, 2013 concerning an extension of the existing loan agreement through to March 31st, 2015, bank borrowings were reported as noncurrent liabilities as of December 31st, 2013. With the renewed conclusion of a further extension of the credit lines until September 30th, 2016, and the modification of the term until September 30th, 2016, the bank borrowings are also reported as noncurrent as of December 31st, 2014.

Note (40), which covers the topic of liquidity risk, provides further information about the scope of the syndicated agreement.

k€			
as per 31/12/2014	**Carrying amount/** fair value	**Residual term** up to 1 year	**Residual term** 1 to 5 years
Financial liabilities	38,591	1	38,590
as per 31/12/2013			
Financial liabilities	40,334	4	40,330

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

(30) PROVISIONS

The provisions are composed as follows:

Noncurrent provisions k€	Balance at 01/01/2014	Reclassi-fication	Utilisation	Release	Compound Interest	Addition	Balance at 31/12/2014
Warranty provisions	793	– 222	0	– 61	13	0	523
Restoration obligations	91	0	0	0	0	0	91
Other	51	0	0	– 7	0	0	44
Total	**935**	**– 222**	**0**	**– 68**	**13**	**0**	**658**

Current provisions k€							
Warranty provisions	2,279	222	– 161	-1,934	5	197	608
Litigation and arbitration costs	742	0	– 600	0	0	37	179
Provisions for anticipated losses	508	0	– 170	0	0	0	338
Other	405	0	– 121	– 283	0	313	314
Total	**3,934**	**222**	**– 1,052**	**– 2,217**	**5**	**547**	**1,439**

The warranty provision has been formed for statutory and contractual warranty obligations, and ex gratia payments to customers. Almost all the noncurrent warranty provisions relating to the project business have a term of up to five years.

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

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

(31) TRADE PAYABLES

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

All trade payables are due in less than one year.

(32) OTHER LIABILITIES

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

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

Other financial liabilities are composed as follows:

Other financial liabilities **k€**	**31/12/2014**	**31/12/2013**
Deferred sales commissions	0	182
Deferred sales	418	362
Commitments to former shareholders	0	235
Credit balances in customer accounts	37	0
Purchase price prepayments for project companies	110	0
Other	521	1,821
Total	**1,085**	**2,600**

Other non-financial liabilities **k€**	**31/12/2014**	**31/12/2013**
VAT liabilities	779	313
Liabilities under wage tax and social security	243	155
Personnel-related liabilities	559	2,108
Liabilities from downpayments received	376	1,941
Other	195	44
Total	**2,151**	**4,561**

The personnel-related liabilities relate to the following matters:

Personnel-related liabilities **k€**	**31/12/2014**	**31/12/2013**
Liabilities under current employment contracts	82	178
Liabilities under bonus commitments	214	1,485
Liabilities for overtime and/or vacation claims	132	200
Other	130	244
Total	**559**	**2,108**

E. ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(33) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

Accumulated other comprehensive income represents equity earned by the Group, as a matter of principle. It is composed of the prior-period profits and losses of the companies included in the consolidated financial statements, to the extent they have not been distributed in the form of dividends, and differences arising from currency translation of the foreign subsidiaries' separate financial statements, in the amount of kEUR 827 (previous year: kEUR - 434). As in previous years, other comprehensive income did not incur any income tax (previous year: kEUR 0).

(34) CONSOLIDATED CASH FLOW STATEMENT

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

The cash flow from operating activities is calculated by means of the indirect method. This entails calculating cash flow from operating activities as follows: the consolidated pretax earnings for the period are adjusted to exclude non-cash amounts, and are supplemented to include changes in current assets and liabilities. After taking into account payments of interest and tax, this then generates cash flow from operating activities in the amount of kEUR 3,947.

The reduction in inventories (kEUR 1,249) and changes to supplier receivables (kEUR 2,713) exerted a significantly positive effect on operating cash flow. Furthermore, non-cash write-downs on inventories in the amount of kEUR 4,328 were also added to this figure. Negative effects on the cash flow from operating activities resulted from payments made as of the reporting date to settle liabilities to suppliers of merchandise and purchased services in the amount of kEUR 8,293.

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

The cash flow from investing activities was influenced mainly by acquisitions of noncurrent assets.

In the 2014 financial year, operating activities were financed utilising syndicated working capital financing lines (see notes (28) and (39)).

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all cash and cash equivalents presented in the balance sheet, in other words, cash on hand and cash at banks, to the extent they are available within three months (note (26)). Apart from an amount of kEUR 225 (blocked account), cash is subject to no restrictions on disposal.

Significant non-cash transactions include changes to the measurement of inventories amounting to kEUR 233 (previous year: impairment losses of kEUR 718 applied to inventories), and allocations of write-downs or depreciation to the receivables portfolio in the amount of kEUR 1,667 (previous year: kEUR 1,322).

F. OTHER DISCLOSURES

(34) SEGMENT REPORTING

OPERATING SEGMENTS

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

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

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

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

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

Due to the divestiture of the O&M operations of the German parent company as of November 1st, 2014, segment information about the operating areas listed above are presented separately below according to continuing operations and discontinued operations. Segment information on these business areas deriving from discontinued operations is set out below. Please refer to section C (1) for information about discontinued operations.

Financial Year 2014 k€	Power Plants	Components & Systems	Continuing operations	Discontinued operations	Group
Segment income statement					
External revenues	12,367	17,325	29,692	4,091	33,783
Segment revenues	**12,367**	**17,325**	**29,692**	**4,091**	**33,783**
Segment profit or loss	– 8,367	– 2,128	– 10,495	5,840	– 4,655
Income from associated companies	39	0	39	0	39
EBIT	– 8,328	– 2,128	– 10,456	5,840	– 4,616
Financial result			– 5,125	0	– 5,125
Consolidated profit/loss before taxes			– 15,581	5,840	– 9,741
Income taxes			1,133	– 1,559	– 426
Consolidated net profit/loss			**– 14,448**	**4,281**	**– 10,167**
– of which attributable to non-controlling interests			3	0	3
– of which due to majority shareholders			– 14,451	4,281	– 10,170
Other information					
Capital expenditures	664	176	840	46	886
Amortisation and depreciation	1,158	284	1,442	127	1,569
Non-cash expenses	1,527	1,104	2,631	0	2,631
Non-cash income	3,091	925	4,017	127	4,144
Assets					
Segment assets	13,608	19,065	32,673	4,502	37,175
Investments in associates	397	0	397	0	397
Unallocated assets			7,668	0	7,668
Consolidated assets	**14,005**	**19,065**	**40,738**	**4,502**	**45,240**

Financial Year 2013 k€	Power Plants	Components & Systems	Miscell-aneous	Consoli-dation	Group
Segment income statement					
External revenues	79,411	56,713	136,124	5,099	141,223
Segment revenues	**79,411**	**56,713**	**136,124**	**5,099**	**141,223**
Segment profit or loss	– 4,233	1,820	– 2,413	938	1,475
Income from associated companies	68	0	68	0	68
EBIT	– 4,165	1,820	– 2,345	938	– 1,407
Financial result			– 5,052	0	– 5,052
Consolidated profit/loss before taxes			– 7,397	938	– 6,459
Income taxes			– 2,597	– 250	– 2,847
Consolidated net profit/loss			**– 9,994**	**688**	**– 9,306**
– of which attributable to non-controlling interests			1,382	0	1,382
– of which due to majority shareholders			– 11,376	688	– 10,688
Other information					
Capital expenditures	697	143	840	46	886
Amortisation and depreciation	811	668	1,479	184	1,663
Non-cash expenses	723	854	1,577	8	1,585
Non-cash income	958	844	1,802	21	1,823
Assets					
Segment assets	31,436	22,433	53,869	2,042	55,911
Investments in associates	397	0	397	0	397
Unallocated assets			12,426	0	12,426
Consolidated assets	**31,833**	**22,433**	**66,692**	**2,042**	**68,734**

The revenues of the Power Plants segment derive mainly from project-related work, so that project revenues as of the reporting date included both finally invoiced projects and ongoing projects, whose revenues were recognised on an accrual basis applying the percentage-of-completion method according to IAS 11. These revenues total kEUR 8,641 as of the reporting date (previous year: kEUR 61.726). Due to the business model, and the goods and services offered on that basis, intersegment revenues are excluded, as a matter of principle. One customer can account for a significant proportion of the total revenues of the Power Plants segment as a result of large-scale projects, especially in the USA. As such projects are generally specific projects, however, no long-term concentration of revenue generation in relation to one customer arises. On the purchasing side, too, no concentration on one supplier arises due to project-related purchasing. The same applies for the purchasing side.

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

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

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

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

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

The Group’s revenues from its continuing operations are divided among the regions as follows:

k€	2014	2013
Germany	258	13,365
EU excluding Germany	11,407	31,397
USA	7,033	53,761
Asia	10,993	37,827
Total	**29,692**	**136,123**

Noncurrent assets were divided among the regions as follows:

k€	31/12/2014	31/12/2013
Germany	1,474	2,073
EU excluding Germany	13,111	13,972
USA	0	318
Asia	794	164
Non-allocated	2,504	1,866
Total	**17,883**	**18,393**

(36) DISCLOSURES OF TRANSACTIONS WITH RELATED PARTIES

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

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

Phoenix Solar AG granted its participating interest SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG a final maturity loan of kEUR 1,047 at 6.5 percent interest until September 30th, 2012, and with a term until the end of 2013 kEUR 650. This loan was paid down to an amount of kEUR 114 by December 31st, 2014. On the basis of an agreement reached in the previous year, the interest rate was reduced to 0.0 percent from October 1st, 2012.

Directors' shareholdings:

Executive Board	No. of Shares 31/12/2014	No. of Shares 31/12/2013
Dr. Bernd Köhler (stepped down from office on December 31st, 2014)	n.a.[1]	n.a.[1]
Dr. Murray Cameron	69,750	69,750
Olaf Laber (stepped down from office on January 31st, 2015)	0	0
Tim P. Ryan (appointed as of January 1st, 2015)	n.a.	n.a.
Manfred Hochleitner (appointed as of January 1st, 2015)	n.a.	n.a.
Total shares held by Executive Board members	**69,750**	**69,750**

[1] As these members have stepped down from office, there no longer obligated to make disclosure

Supervisory Board	No. of Shares 31/12/2014	No. of Shares 31/12/2013
J. Michael Fischl	0	0
Prof. Dr. Thomas Zinser	0	0
Oliver Gosemann	9,100	9,100
Total holdings of Supervisory Board members	**9,100**	**9,100**

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

In addition, compensation paid to the Executive and Supervisory boards constitutes transactions with related persons. Please see notes (43) and (44) for more detailed information.

(37) CONTINGENT LIABILITIES

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

(38) CONTINGENT ASSETS AND LIABILITIES

No contingent assets or liabilities exist.

(39) OTHER FINANCIAL LIABILITIES

The Group had total financial commitments of kEUR 2,959 (previous year: kEUR 3,506) under various rental and lease agreements. Of this total amount, an amount of kEUR 953 (previous year: kEUR 967) is due within one year, kEUR 1,672 (previous year: kEUR 1,797) has a residual term between one and five years, and kEUR 334 (previous year: kEUR 1,928) has a residual term of over five years.

Firm orders for non-current assets amounted to kEUR 0 (previous year: kEUR 60). No obligations arising from long-term purchasing contracts with suppliers exist as of the balance sheet date.

Credit guarantee lines of EUR 21.1 million had been extended as of the balance sheet date (previous year: EUR 34.1 million).

(40) RISK MANAGEMENT SYSTEM

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

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

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

CURRENCY AND INTEREST RATE RISK

The Phoenix Group is exposed to currency risks due to the fact that its business is geared to international markets, and their growing importance. As a consequence, the treasury department considers the effective management of exchange rate risk to be one of its principal tasks, which it fulfils by means of an actively managed exchange rate hedging strategy.

Foreign currency risks are hedged to the extent that they influence the Group's cash flows. By contrast, foreign currency risks that do not influence the Group's cash flows (in other words, risks resulting from the translation of assets and liabilities of foreign corporate units to the Group's reporting currency) are unhedged, as a general rule.

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

Derivatives are employed as hedging instruments to limit or eliminate such risks. The Group generally deploys forward currency transactions, swaps and currency options to hedge payments in advance that will be made or received in the following financial year. As of the reporting date December 31st, 2014, the Group reports forward currency transactions with a volume of kEUR 3,026 (previous year: kEUR 5,250).

Phoenix Solar AG is consequently exposed to market value risks from certain foreign exchange derivatives. These comprise foreign exchange derivatives that serve to hedge underlying transactions and planning positions. Exchange rate changes in the currencies underlying such financial instruments are recognised in other operating income or expenses (measurement result from the adjustment of financial assets to fair value). If the euro had risen or fallen by 10 percent against all currencies as of December 31st, 2014, other operating income and the fair value of hedging transactions would have been kEUR 6 lower or kEUR 8 higher respectively (December 31st, 2013: kEUR 0 higher or kEUR 0 lower respectively). The hypothetical earnings effect derives from the currency sensitivities of the euro to the US dollar.

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

Moreover, the company has set up an interest rate management programme, which became more important during the past financial year as a result of the variable syndicated loan financing facility. Although the business model, and resultant equity and liability items, are currently exposed to only minor interest rate risk, the Group has nevertheless identified the need to set up active interest rate hedging in this area. As vehicles for managing the interest burden, the Group employed both interest rate swaps and interest rate caps to adequately counter any potential increase in interest rates. Interest rate changes in the interest differences underlying such financial instruments affect the Group's net financial result. If the level of interest rates had increased or decreased by 100 basis points compared to all interest rate hedging transactions as of December 31st, 2014, the financial result and the fair value of hedging instruments would have been kEUR 250 higher or kEUR 21 lower respectively (December 31st, 2013: kEUR 19 higher or kEUR 4 lower respectively).

Without hedging management, a 100 basis point higher interest-rate level would have resulted in higher interest of kEUR 400 in the financial year elapsed. Taking into account the agreed upper limits for interest, additional interest payments would have amounted to only kEUR 354.

DEFAULT RISK

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

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

Milestone payments by customers when contractually agreed degrees of completion of solar parks are achieved are typical of the project business. This significantly limits the risk for us of a complete default on receivable. Customers also provide us with financing confirmations for existing project financing facilities, or bank guarantees, as additional cover for receivables.

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

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

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

LIQUIDITY RISK

To avoid liquidity risk within the Phoenix Group – in other words, an inability on the part of the Group to fulfil existing payment obligations with respect to the amounts and temporal structure, without restriction, and/or on time – the Group prepares a cash flow forecast on the basis of a three-year business plan approved by the management. The Group treasury function compares the expected future cash flows with the rolling weekly forecast of the Group's liquidity position. This allows financial risks to be identified at an early stage, and measures to be taken in relation to financing and investment requirements (flexible liquidity risk management). In early November 2014, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30th, 2016. The new financing facility has a volume totalling around EUR 113 million, and consists of a syndicated loan of almost EUR 93 million, as well as other bilateral cash and guarantee credit lines.

(41) SHARE-BASED PAYMENT TRANSACTIONS

The Annual General Meeting of July 7th, 2006 passed a resolution to introduce a stock option plan for members of the Executive Board, members of the senior management of Group companies, and other selected senior managers and key employees of the company. Conditional Capital of kEUR 552 was created for this purpose.

As part of this authorisation, the Executive Board of Phoenix Solar AG established a Stock Option Plan on September 10th, 2007 ("Stock Option Plan 2006"; "SOP 2006" as an abbreviation for "Stock Option Plan 2006"), under which a total of 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 279,350 (of which in 2014: 21,500) of those stock options had expired due to the individuals concerned having left the company, and 18,000 had been exercised in previous years. As a consequence, 42,500 stock options exist as of the reporting date. The beneficiaries will be entitled to exercise these stock options only if their employment relationship with the parent company or another Group company has not been terminated by either party at the time of exercise of the stock options.

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

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

Due date of dividends (assumption)	Around 15 June of each year
No. of simulations conducted	10,000,000 in each case

- **Exercise strategies:** The strategy of earliest possible exercise was assumed for Tranches I to III. Based on experience with the initial exercise, a three-part strategy was assumed for Tranches IV and V, consequently: 1. Earliest possible exercise, 2. Earliest possible exercise after 2.5 years at the earliest, 3. Earliest possible exercise after three years. The weighting applied for determining the percentage of stock options to which each strategy is to be applied for measurement purposes is based on the experience gained, whereby 67 percent exercise according to Strategy 1, 11 percent according to Strategy 2 and 22 percent according to Strategy 3. An employee turnover rate of five percent was also taken into account.

- **Exercise vesting period:** during the exercise period, stock options may not be exercised during a period of 14 calendar days before the date of publication of quarterly reports, and during the period from the close of the financial year to the end of the date of publication of the financial results of the preceding financial year.

- **Exercise hurdles:** The beneficiaries can only exercise the option rights if the closing price of the share of Phoenix Solar AG in Xetra trading on the Frankfurt Stock Exchange (or a comparable successor system) exceeds the exercise price on exercise of the subscription rights during the first year of the exercise period by 40 percent on ten subsequent trading days. This percentage rate increases in each case by 20 percentage points in the subsequent years. No options were exercisable as of December 31st, 2014 due to the aforementioned exercise hurdles.

Volatility was calculated as historical volatility derived from the share price performance between November 19th, 2004 and July 13th, 2007 (Tranche I), between July 1st, 2005 and September 12th, 2008 (Tranche II), between July 1st, 2006 and October 5th, 2010 (Tranche IIII), between July 1st, 2007 and October 4th, 2011 (Tranche IV), and between July 1st, 2008 and May 9th, 2011 (Tranche V). Expected volatility is based on average historical volatility.

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

The stock option position reported the following changes during the financial year under review:

	Tranche V SOP 2006 (2011)	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Position 01/01/2013	3,000	41,000	26,000	21,000	9,000	100,000
stock options expired during the term in 2013	0	– 9,000	– 9,000	– 9,000	– 4,500	– 31,500
Position 31/12/2013 – 01/01/2014	**3,000**	**32,000**	**17,000**	**12,000**	**4,500**	**68,500**
stock options expired during the term in 2014	0	– 12,500	– 6,000	– 3,000	0	– 21,500
Position 31/12/2014	**3,000**	**19,500**	**11,000**	**9,000**	**4,500**	**42,500**

As in the past two financial years, no options were exercised in 2014.

The company incurred no expenses from share-based compensation for the 2014 financial year (previous year: kEUR 0).

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

(42) IMPORTANT EVENTS AFTER THE REPORTING DATE

APPOINTMENT OF NEW MEMBER OF THE EXECUTIVE BOARD

In December, the Supervisory Board appointed Mr. Tim P. Ryan as the new Executive Board Chairman (Chief Executive Officer), and Mr. Manfred Hochleitner to be Chief Financial Officer (Chief Financial Officer). Both Executive Board members' periods of office commenced on January 1st, 2015. Mr. Ryan is responsible for the strategy and business development areas, concentrating mainly on the subsidiaries in the USA, Singapore and Oman. Mr. Hochleitner's responsibilities chiefly comprise finance and administration.

Mr. Olaf Laber resigned his Executive Board mandate with effect as of January 31st, 2015.

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

(43) EXECUTIVE BOARD OF THE PARENT COMPANY

- Dr. Bernd Köhler, economics graduate, Ubstadt-Weiher, appointed until December 31st, 2014; responsible for finance, Chief Executive Officer from March 1st, 2013 until December 31st, 2014
- Tim P. Ryan, Master of International Business (MIB), Lucerne/Switzerland, appointed until January 1st, 2015 until December 31st, 2016, Chief Executive Officer from January 1st 2015; responsible for strategy and business development, America, Asia and Middle East
- Manfred Hochleitner, mathematics graduate, Munich, appointed as of January 1st, 2015 until December 31st, 2017; responsible for finance and administration (Chief Financial Officer)
- Dr. Murray Cameron, physics graduate, Garching, appointed until June 30th, 2016; responsible for business support international
- Olaf Laber, IT studies graduate, Dreieich, appointed until December 31st, 2016; responsible for new business models, information technologies, Europe and Middle East (since January 1st, 2014; stepped down from office as of January 31st, 2015)

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

- Dr. Bernd Köhler was a Non Executive Board member of Phoenix Solar Pte. Ltd, Singapore. He was also Supervisory Board Chairman of Phoenix Solar S.r.l., Rome, Italy. Dr. Köhler relinquished both positions when he left the company as of December 31st, 2014.
- Until January 31st, 2015, Dr. Murray Cameron was Chairman of the Non-Executive Board of Phoenix Solar Pte. Ltd., Singapore, as well as Chief Executive Officer and President of Phoenix Solar Inc., USA.
- With effect as of February 1st, 2015, Mr. Tim P. Ryan assumed the function of Chief Executive Officer and President of Phoenix Solar Inc., USA
- Mr. Manfred Hochleitner is a Non Executive Board member of Phoenix Solar Pte. Ltd, Singapore, and also a member of the Board of Directors of Phoenix Solar Inc., USA, with effect as of February 1st, 2015. He is also a Supervisory Board member of Phoenix Solar S.r.l., Rome, Italy.

The compensation granted to the Executive Board in the financial year 2014 declined to kEUR 1,074. For details with regard to the remuneration of the members of the Executive Board see chapter 12 of the Group Management Report.

(44) SUPERVISORY BOARD OF THE PARENT COMPANY

- Michael Fischl, business studies graduate, Abensberg (Chairman), Head of Internal Audit of Sparkasse Ingolstadt
- Prof. Thomas Zinser, Hohenschäftlarn, (Deputy Supervisory Board Chairman since June 21st, 2012), tax advisor at tax, law, and management consultancy firm Ebner Stolz Mönning Bachem, and professor at Landshut University in the Faculty of Taxation, Accounting and Business Administration
- Oliver Gosemann, Managing Director of GOSFAM Investments GmbH, Forst (since June 16th, 2010) Mr. Gosemann is also Deputy Supervisory Board Chairman at CPU Softwarehouse AG, Augsburg, and Supervisory Board member at Turbina Energy AG, Munich.

The total compensation of the Supervisory Board members in the 2014 financial year amounted to kEUR 129 (previous year: kEUR 124), and is comprised entirely of non-performance-related components.

This amount was divided up as follows:

k€	Component unrelated to performance		Total	
	2014	**2013**	**2014**	**2013**
J. Michael Fischl	54	52	54	52
Prof. Dr. Thomas Zinser	40	38	40	38
Oliver Gosemann	36	34	36	34
Total	**129**	**124**	**129**	**124**

(45) PROFESSIONAL FEE OF THE INDEPENDENT AUDITOR

The fee paid to the auditing company and expensed for 2014 is composed as follows:

k€	2014	2013
a) Audit of financial statements	203	277
b) Other certification services	0	0
c) Tax advisory services	0	7
d) Other services	6	14
Total	**209**	**298**

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

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive and Supervisory boards have issued a declaration of conformity with the German Corporate Governance Code, making it permanently available to shareholders on the company's website (http://www.phoenixsolar-group.com) under the menu options of "Investor Relations" and then "Corporate Governance", "Declaration of Conformity".

The declaration was last made and published on March 25th, 2015.

(47) AFFIRMATION BY THE LEGALLY AUTHORISED REPRESENTATIVES

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

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, March 25th, 2015

Phoenix Solar Aktiengesellschaft

Tim P. Ryan
Master of International Business (MIB)
Lucerne/ Switzerland
(Chief Executive Officer)

Manfred Hochleitner
Dipl.-Mathematiker
Munich
(Executive Board member)

Dr. Murray Cameron
Dipl.-Physiker
Garching
(Executive Board member)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the Group Management Report for the business year from January 1st, 2014 to December 31th, 2014. The preparation of the consolidated financial statements and the Group Management Report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code are the responsibility of the Parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

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

Our audit has not led to any reservations.

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

We are bound by duty to point out that there are risks which endanger the existence of the company. These are detailed in section 8.7.1 "Group Financing" of the Group Management Report. There it is explained that the Company's liquidity depends on the prolongation of the syndicated loan agreement beyond September 30th, 2016, and that the bank syndicate in the event of a breach of covenants will not exercise its extraordinary termination right for the credit lines.

Munich, March 25th, 2015

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

ADDITIONAL INFORMATION

PHOTOVOLTAIC GLOSSARY

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

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

• Amorphous modules
Modules made of amorphous silicon (a-Si) are a type of thin-film module whose cells are made of glass or metal panels coated with a thin layer of silicon. The name comes from the fact that, when the glass or metal is coated, the silicon atoms are not distributed in the crystalline structure but are spread amorphously, i.e. at random. a-Si modules have a distinctive brown colour.

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

• Balance of system costs
In a photovoltaic system, the balance of system (BoS) costs are made up of the costs of all components except those of the modules. BoS costs comprise planning costs, construction preparation costs, the cost of the mounting system, DC cabling, inverters, grid connection and installation.

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

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

• Degression
The German Renewable Energies Act (Erneuerbare-Energien-Gesetz (EEG)) provides for a lowering of the feed-in tariff oriented towards market growth. A sliding scale regulates the reduction: If the newly installed output within a certain period exceeds or falls below a defined growth corridor, degression is either raised or lowered. Degression is intended to promote competition in the solar industry and lead to lowering the cost of generating solar electricity.

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

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

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

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

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

• Grid-connected systems
Grid-connected systems are solar power plants which have been connected up to the power grid and continuously feed in solar electricity.

• Grid parity
The grid parity of solar electricity means that the price of generating one kilowatt hour of solar electricity is no higher than the end consumer price for electricity from the mains socket. Grid parity is therefore tied to the location of consumption, as solar electricity is often generated where it is consumed. The definition of grid parity is therefore not a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

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

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

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

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

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

• Micromorphous modules
Micromorphous modules (also known as tandem modules) combine both amorphous and microcrystalline technologies. The light spectrum absorbed is raised to the near-infrared region through an additional microcrystalline silicon layer. Micromorphous modules are therefore more efficient than amorphous modules.

• Monocrystalline cells
The basic material for monocrystalline cells is ultra-pure silicon which is extracted from silicon smelt and manufactured into wafers of up to twelve centimetres in diameter. All crystal lattices are evenly distributed in monocrystalline. Monocrystalline cells are more efficient than polycrystalline cells but they are also more expensive to manufacture. They can be recognised by their characteristic graphite colour.

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

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

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

• Operation
Along with configuration and system integration, the commercial and technical operation of solar power plants are key factors influencing the yield and therefore the return. Core tasks are to secure steady-state optimal operation, the monitoring and reporting of yield data, as well as compliance with the statutory provisions and periodic inspections.

• Peak power output (peak output)
The maximum power output possible from a solar module or power system under standard test conditions (STC) is defined as the peak power output (also known as peak power). It is measured in watt (W) and stated as watt peak (Wp).

• Photovoltaic
Photovoltaic is defined as the environmentally compatible generating of electricity through tapping the sun's energy. In this process, solar cells linked up to one another in solar modules convert the sun's light into electrical direct current.

• Polycristalline cells
The basic material for polycrystalline (also known as multi-crystalline) cells is ultra-pure silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into thin wafers which are 0.2 to 0.4 millimetres thick. The cells that result from this process are made up of many small single crystals, so-called crystallites, which are separated by grain boundaries The pattern which results from the composition of different crystals is unmistakable, as is the blueish colour.

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

• Renewable energies
Renewable energies (also known as regenerative energies) come from a source which either renews itself in the short term or where its use does not contribute to exhausting the respective resource. This includes solar irradiation, hydropower, geothermal energy and the potential in the energy recoverable from tidal power or biomass. The share of renewable energy sources in Germany's electricity consumption is now higher than 20 percent. The use of solar power through photovoltaic has recorded high growth rates in renewable energies in recent years.

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

• Solar modules
A solar module is made up of the number of solar cells which are electrically connected in series and which, after application of current connectors, are processed to form a module. The generally square solar cells are applied to a substrate, covered by a glass plate and laminated to protect them against weather exposure. A frame is often attached for the purpose of simplifying assembly. Solar modules customary in the market are generally made from mono- or polycrystalline solar cells or thin-film modules.

• Solar silicon
Solar silicon (also known as polysilicon) is the basic material used in the production of crystalline solar modules. The production of solar cells necessitates silicon in an ultra-pure state (solar grade).

• **Solar cells**
A solar module is made up of several solar cells which are connected to one another. Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect), which generates direct current. In the production of a solar cell, wafers from the semi-conducting material silicon are doped (impurity doping). When two semiconductor layers with different impurities are put together, a so-called p-n junction is generated between the layers. An electric field is generated at this junction which separates the charge carriers released by photons. Voltage is tapped through the contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell. A differentiation is made between the different types of cells and modules.

• **Standard Test Conditions (STC)**
The specific data of a solar module are measured under standard test conditions. Standard test conditions are defined as the solar irradiation of one kilowatt (kW) per square metre, a module temperature of 25 °C and a solar irradiation angle of 45°.

• **String**
A string is the parallel wiring of a number of solar modules connected up electrically in a series.

• **System costs**
The system costs of a photovoltaic plant are a key factor for determining the investment costs and therefore the length of the period of amortisation. They are made up of the costs of all technical components (solar modules, installation system, direct current master switch, inverters, cabling and electricity meters) and of the work performed (development, planning, building, and over etc.). Financing costs, costs of official approvals, expert opinions, legal advice and similar services are not part of the system costs.

• **System integration**
The efficiency of a photovoltaic system depends to a great extent on the ideal interaction of all the individual components. The more technologies and products offered for selection in the market, the greater the optimisation potential through consistent system integration. The tasks of system integration include the selection and checking of the individual components, as well as the reconciliation of all details in accordance with requirements, for example the installation system, taking account of local conditions on the respective sites.

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

• **Turnkey power plant**
In photovoltaic, a turnkey power plant is a fully configured solar power plant consisting of solar modules, a mounting system, inverters and cabling.

• **Value chain**
The value chain is the whole mix of products and services which go to make up one product (solar power plant, for instance) or a service (such as system integration or operation), comprising all links in the chain, in other words from the suppliers of raw materials and manufacturers, across system integrators, wholesalers and retailers through to the end customer.

• **Wafer**
Wafers are round or rectangular silicon slices which are approximately 0.2 to 0.4 millimetres thick. In photovoltaic, they are the primary product used in crystalline solar cells.

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CREATION

„feel free!" Weber & Kudla GbR – Friedberg/Hessen

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements on future developments which are based on management's current assessments. Words such as "anticipate", "assume", "believe", "estimate", "expect", "intend", "can/could", "plan", "project", "forecast", "should" and similar terms are indicative of such forward-looking statements. Such statements ars subject to certain risks and uncertainties, which are mainly outside the sphere of influence of Phoenix Solar AG, but which have an impact on the business activities, the success, the business strategy and the result. These risks and factors of uncertainty include, for instance, climatic changes, changes in the state subsidisation of photovoltaic, the introduction of competitor products or technologies of other companies, the dependency on suppliers and the price development of solar modules, the development of the planned internationalisation of business activities, fierce competition and rapid technology change in the photovoltaic market. If one of these or other factors of uncertainty or risks should occur, or if the assumptions underlying the statements should prove incorrect, the actual results may diverge substantially from the results in these statements or implicit indications. Phoenix Solar AG does not have the intention, nor will it undertake any obligation to update forward-looking statements on an on-going basis or at a later point in time, as this is entirely dependent on circumstances prevailing on the day of their release.

FINANCIAL CALENDAR

May 7th, 2015	Report/Interim Figures as per March 31st, 2015
June 23th, 2015	Ordinary Annual General Meeting of Shareholders 2015
August 6th, 2015	Report/Interim Figures as per June 30th, 2015
November 5th, 2015	Report/Interim Figures as per September 30th, 2015

The updated financial calendar can be viewed on the Phoenix Solar AG website under www.phoenixsolar.com/InvestorRelations/FinancialCalendar

This report is also available in German. Both versions are available for download on the internet. This is an English translation of the German original. Only the German version is binding.

GROUP STRUCTURE

Group structure as at 31/12/2014

Phoenix Solar AG
Sulzemoos, Germany

SUBSIDIARIES

100 %	**Phoenix Solar S.L.** Madrid, Spain
100 %	**Phoenix Solar E.P.E.** Athens, Greece
100 %	**Phoenix Solar SAS** Lyon, France
100 %	**Phoenix Solar America GmbH** Sulzemoos, Germany
100 %	**Phoenix Solar Incorporated** San Ramon, USA
75 %	**Phoenix Solar Pte Ltd** Singapore, Singapore
75 %	**Phoenix Solar Sdn Bhd** Kuala Lumpur, Malaysia
70 %	**Phoenix Solar L.L.C.** Muscat, Oman
100 %	**Phoenix Solar Fonds Verwaltung GmbH** Sulzemoos, Germany

OTHER HOLDINGS

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

Making energy together

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