

Annual Report
2004

Phönix SonnenStrom AG at a glance

Reporting date	31/12/2004	31/12/2003	31/12/2002
Balance sheet			
Total assets (EUR '000)	19,218	11,200	16,100
Equity (EUR '000)	11,253	8,732	10,231
Equity ratio	59 %	78 %	63 %
Result			
Sales (EUR '000)	67,164	23,464	20,800
Total sales (EUR '000)	67,368	23,716	21,601
EBIT (EUR '000)	2,829	- 1,496	- 1,718
Net profit/loss for the year (EUR '000)	2,521	- 1,499	- 1,726
Earnings per share (EUR)	0.50	- 0.30	- 0.34
Employees (number)*			
Sales per capita (EUR '000) (full-time equivalent)	1,556	615	575
PHÖNIX SonnenAktie®			
No-par bearer shares	5,025,000	5,025,000	5,025,000
Computed share in the share capital (EUR)	1	1	1

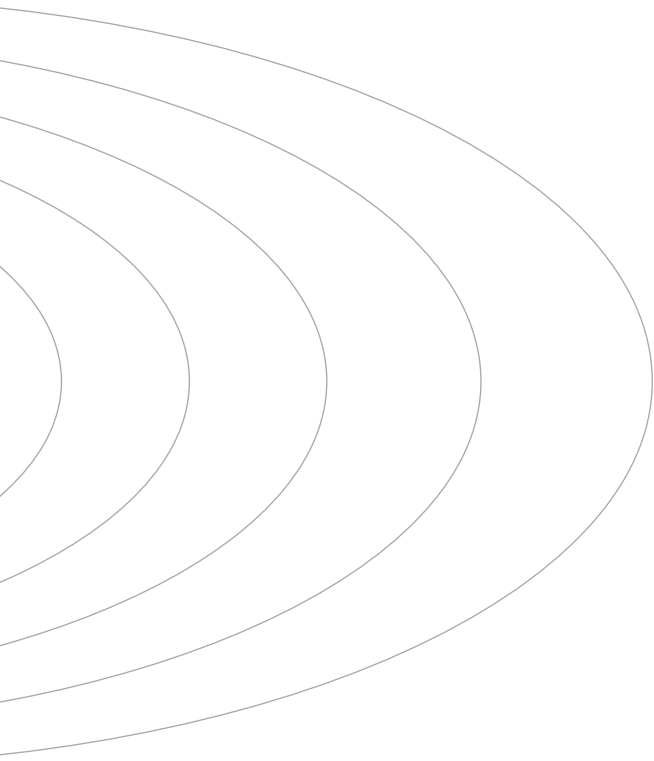
* Average employee numbers, incl. part-time and temporary staff

2004

Annual Report



2004



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This is an English translation of the German original.
Only the German version is binding.

Dear Shareholder,

It is with great pleasure that we can report to you on our most successful financial year to date. In 2004, we reaped significant successes, worked hard to achieve our goals and underwent substantial change. First and foremost, we generated a profit for the year of EUR 2.5 million in 2004, the best result in the company's history.

This upbeat performance is attributable in the main to ongoing optimisation of our processes and changes in the legal situation, which prompted the demand for solar electricity systems to accelerate rapidly from January 2004 onwards. With the volume of the photovoltaic market in Germany doubling to a peak output of around 300 megawatts, Phönix SonnenStrom AG was able to almost treble its sales, lifting them by a notable 186 percent to EUR 67.2 million. This success would not have been possible without the commitment and dedicated efforts of our employees. Thanks to their hard work we have succeeded in almost doubling sales per employee (full-time equivalent) with a workforce virtually unchanged in terms of numbers.

The extremely high demand for solar electricity plants enabled us to bring our products and services successfully to the market, but also resulted in our secured supply of photovoltaic modules being quickly sold out. The module market also became very tight early in the year, particularly as manufacturers were often not able to keep to their delivery dates and commitments and were unable to ramp up their capacity fast enough. This shortage necessitated the distribution of available modules in a fair but entrepreneurially driven fashion amongst our clients. As with other companies in the sector, it also put us in the position of not being able to fulfil all the wishes of our customers. Particularly in view of these difficult circumstances, good cooperation with our sales partners, suppliers and service providers made a significant contribution to the success of Phönix SonnenStrom AG in 2004.

On 18 November 2004, the day of our company's fifth anniversary, the PHÖNIX SonnenAktie® (our share) was admitted to stock exchange trading. This milestone for us as a stock corporation has brought us closer to the capital markets and opened up new growth potential. On this occasion, we would like to thank our shareholders, many of whom have kept faith with us when we were a stock corporation traded off the floor. Your financial commitment laid the foundations for our dynamic performance.

In the current financial year, we have already been able to report on an extremely successful first quarter. The uptrend in sales and earnings has held steady. In the year 2005, our goals primarily lie in enhancing customer orientation, international expansion, and entry into the multi-megawatt class of plant construction. With the official first cut of the spade ground-breaking ceremony to open a five-megawatt project in Miegersbach in Bavaria in May, we have come a long way in realising this goal.



The Board of Directors (from left to right)
Dr. Andreas Hänel
Dr. Murray Cameron
Manfred Bächler

In the financial year 2005, we expect sales and earnings to grow by at least 30 percent. We have secured the requisite module quotas by signing framework agreements with our long-standing partners RWE SCHOTT Solar and Photowatt, as well as our new partner, First Solar. In addition, we have placed confirmed orders for additional quotas with Mitsubishi Heavy Industries and Shell Solar.

With a view to financing our growth strategy, we carried out a capital increase in the spring of 2005 which generated equity worth EUR 6.31 million for us. We are delighted that, in this context, two large investment companies have invested in our company.

Our annual report is now distinctively different. We hope that you like the new design as much as we do. Some of the content is also new. We report for the first time on the PHÖNIX SonnenAktie®, our Management Report describes the course of the financial year 2004 in more detail than before, and we have added to the tables section.

We look forward to future development of the company which will be fully geared to profitable growth. It is our intention to create secure and attractive jobs on an ongoing basis, to work together with interesting partners, and to be an important, expert systems supplier in the international photovoltaic sector. If you, as our valued shareholders, continue to vest your trust in us and keep faith with us, we would find this highly motivating.

Best regards,



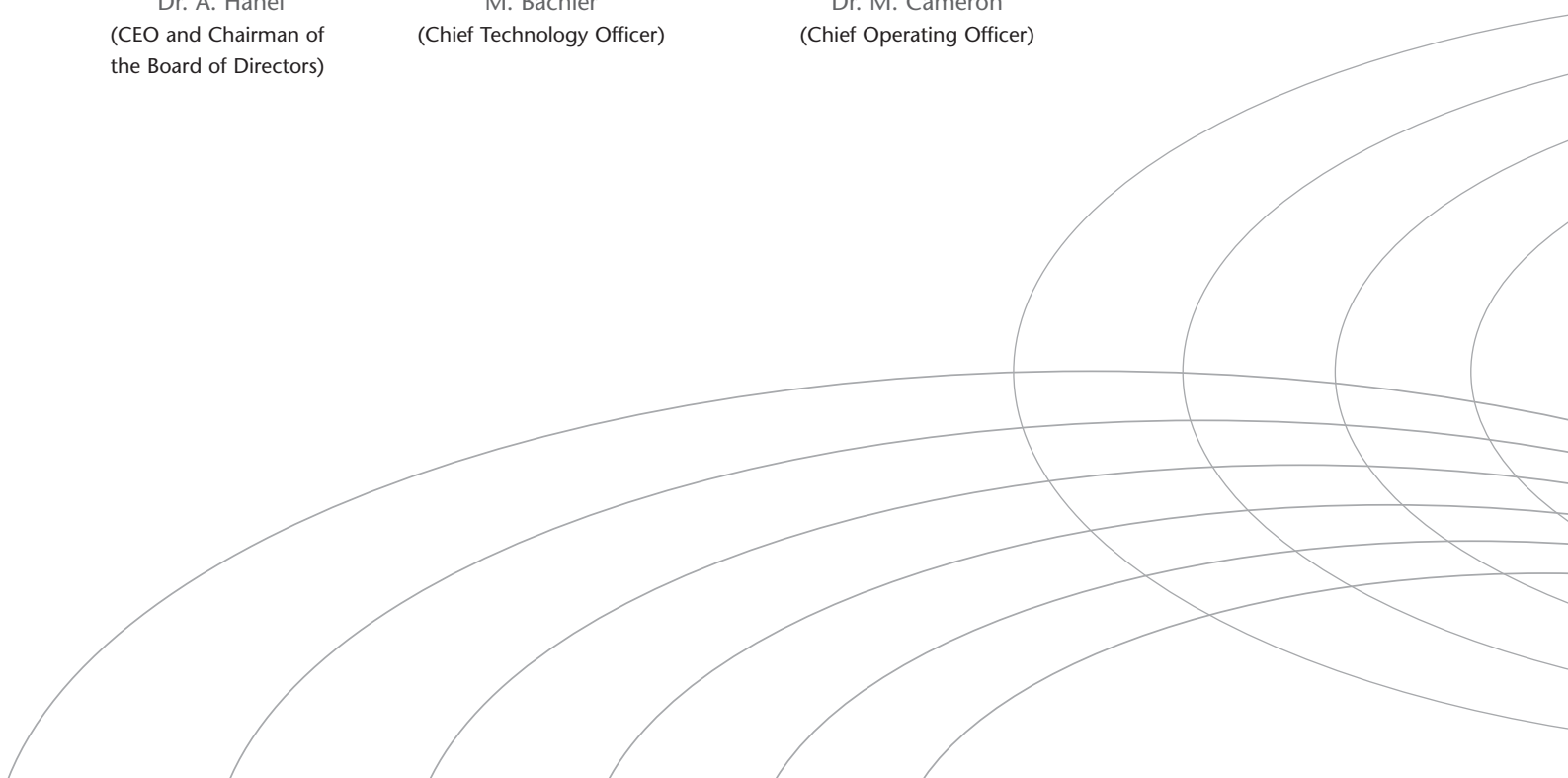
Dr. A. Hänel
(CEO and Chairman of
the Board of Directors)



M. Bächler
(Chief Technology Officer)




Dr. M. Cameron
(Chief Operating Officer)





Pure and simple

Solar electricity is easy: from a freely available source, no risk to the user, energy pure. Thanks to the sophisticated assembly system of Phönix SonnenStrom AG the installation of a solar electricity system is as uncomplicated as solar energy itself. Assembly parts which exactly match, components which are perfectly integrated – what has been so carefully put together must be economical to use. Our intention is to have a few simple tools, all that is necessary to assemble a solar electricity system – so that turning the sun into electricity can be done in a flash.





Future-oriented investment

The PHÖNIX SonnenAktie® (ISIN DE000A0BVU93), the name the shares of Phönix SonnenStrom AG go by, has been traded over the counter (OTC) on Germany's most important stock exchanges since the end of 2004. The price of the PHÖNIX SonnenAktie® has meanwhile gained almost 50 percent (as per 30 April 2005) and numerous new investors, including institutional investors, have been won.

- >> Start of trading of the PHÖNIX SonnenAktie® on 18 November 2004
- >> Listing in Munich (local stock exchange), Frankfurt am Main, Stuttgart and Berlin/Bremen
- >> Extensive information on the company's performance and transparent financial communication for shareholders
- >> Switch to the M:access, the segment for mid-sized companies on the Munich Stock Exchange, in July 2005

PHÖNIX SonnenAktie®

Admittance to OTC trading

The first step

On 18 November 2004, the day of the company's fifth anniversary, the PHÖNIX SonnenAktie® was admitted to OTC trading on the stock exchanges of Munich (local stock exchange), Frankfurt am Main, Stuttgart and Berlin/Bremen.

The history

In 2001, Phönix SonnenStrom AG won around 3,400 new shareholders through its third capital increase. At this early stage, shareholders were made aware of the company's plans for listing. Because of the difficult capital market environment, it was more than three years before these plans could be carried out.

The environment

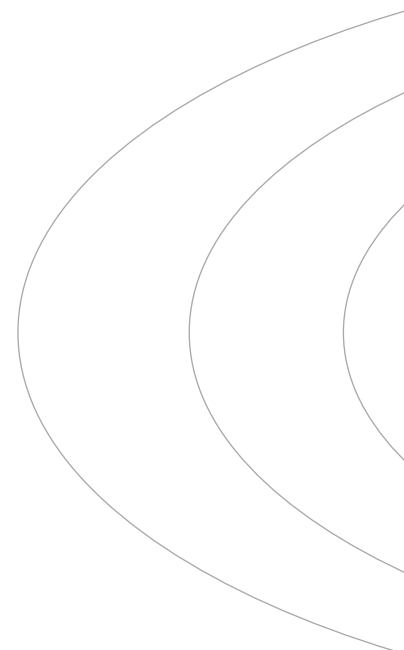
By mid-2004, the capital market had staged a slow recovery. At the same time, the photovoltaic sector was developing fast: following the adoption of the Photovoltaic (PV) Interim Act on 1 January 2004, the demand for solar electricity systems boomed. Listed solar companies benefited from the new and avid attention given them by the financial community.

The motivation

Admission to the stock exchange gave the long-standing, faithful shareholders of Phönix SonnenStrom AG the promised and necessary platform for trading. Moreover, new shareholders were given the opportunity of participating in the company, an option which many investors, including a number of institutional investors, were quick to take advantage of. In May 2005, two renowned German investment companies invested in Phönix SonnenStrom AG within the scope of a capital increase.

The local stock exchange

Proximity and personal contact are extremely valuable, particularly in financial matters. This makes the Munich Stock Exchange an ideal partner for Phönix SonnenStrom AG. With its set of regulations and highly qualified staff, it is specialised in mid-sized companies and offers a high degree of professionalism at a low cost.



The segment

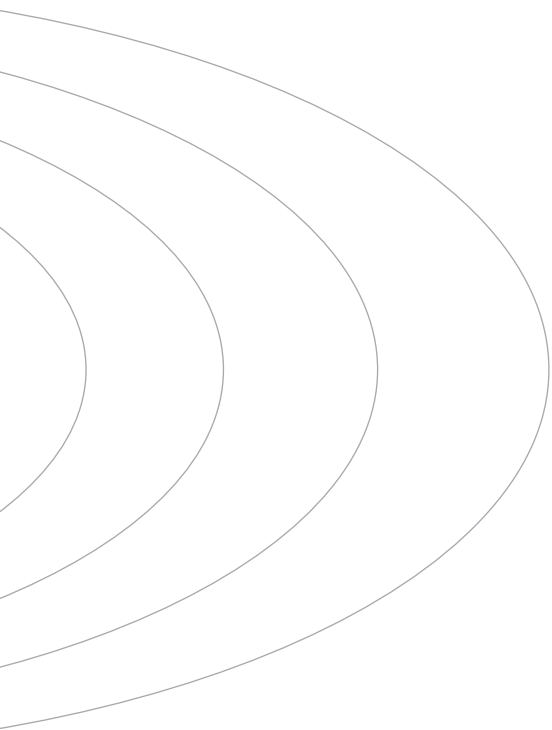
The rules of procedure prevailing in the OTC market are ideally suited to the goals the company has set itself. The costs and requirements for admission to the segment are comparatively low, and Phönix SonnenStrom AG had already fulfilled all the prerequisites before admission. Price-making and settling transactions in the OTC market are just as secure as in the regulated (secondary) and official (first) market segments. The only difference is that the professional trading platform of the OTC market is not regulated by the law as such but by the OTC rules of the respective stock exchange. Given further growth, the company can develop on the stock exchange and switch to other segments.

Subsequent duties

As a company traded off the floor, Phönix SonnenStrom AG was already informing its shareholders voluntarily and regularly on the company's performance. Accordingly, the OTC requirements had already been more than fulfilled before the date when trading began. In the wake of the ongoing development of the company, support for investors and financial communication, investor relations in short, is being stepped up consistently.

The path

The next step in Phönix SonnenStrom AG's development on the stock exchange will be to switch to the new M:access segment of the Munich Stock Exchange. This segment was specially created for mid-sized companies. It helps to focus attention more strongly on the listed companies and makes them more attractive to investors. The disclosure and transparency requirements are more stringent than in the OTC segment, the costs low and thus viable for a mid-sized company as well. On 1 July 2005, Phönix SonnenStrom AG aspires to be one of the first companies to switch to this new segment.



TRANSPARENCY AND INFORMATION FOR OUR SHAREHOLDERS

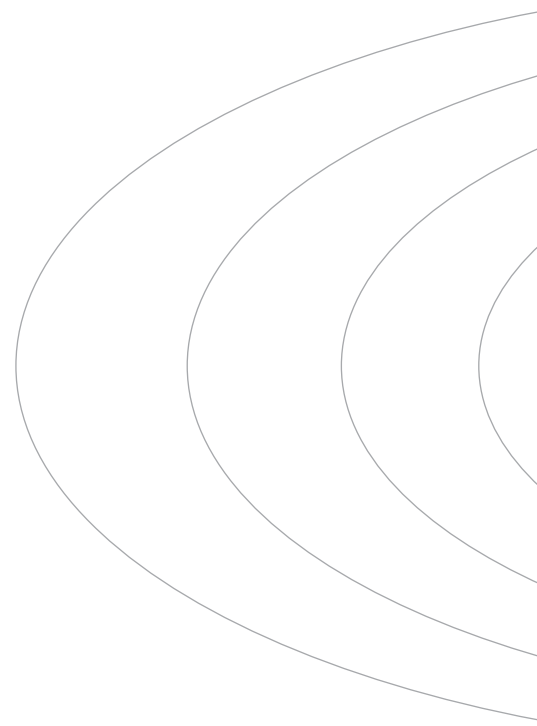
- Annual report
- Interim report
- Quarterly figures through the medium of press releases
- Press releases on the most important company events are published in the national "Corporate News" mailing of the Deutsche Gesellschaft für Ad hoc Publizität (DGAP; www.dgap.de)
- Extensive web site with a separate Investor Relations section, including a financial calendar and full service on the Annual General Meeting
- Information available in English as well

Visit our Investor Relations section under
www.SonnenStromAG.de >> Investor Relations

SHARE DATA

PHÖNIX SonnenAktie®

National security code no. (WKN)	A0BVU9
International security code no. (ISIN)	DE000A0BVU93
SE code	PS4
Class of shares	no-par-value bearer share
Number of shares	5,525,000 units
Share capital	EUR 5,525,000
Stock exchange segment	OTC
Stock exchanges	München, Frankfurt am Main, Stuttgart, Berlin/Bremen
Sector	renewable energies



KEY FINANCIAL DATA

PHÖNIX SonnenAktie®

18/11/2004	First price in OTC trading, Munich	EUR 8.50
31/12/2004	Closing price	EUR 7.15*
	Market capitalisation	EUR 35,928,750
	Earnings per share	EUR 0.50
18/11/ to 31/12/2004	High/low	EUR 9.98/EUR 6.65*
01/01/ to 30/04/2005	High/low	EUR 14.00/EUR 8.36*
Average trading volume	18/11/ to 31/12/2004	61,844 units*
Average trading volume	01/01/ to 30/04/2005	65,265 units*
* On the Frankfurt Stock Exchange		

DEVELOPMENT OF SHARE CAPITAL

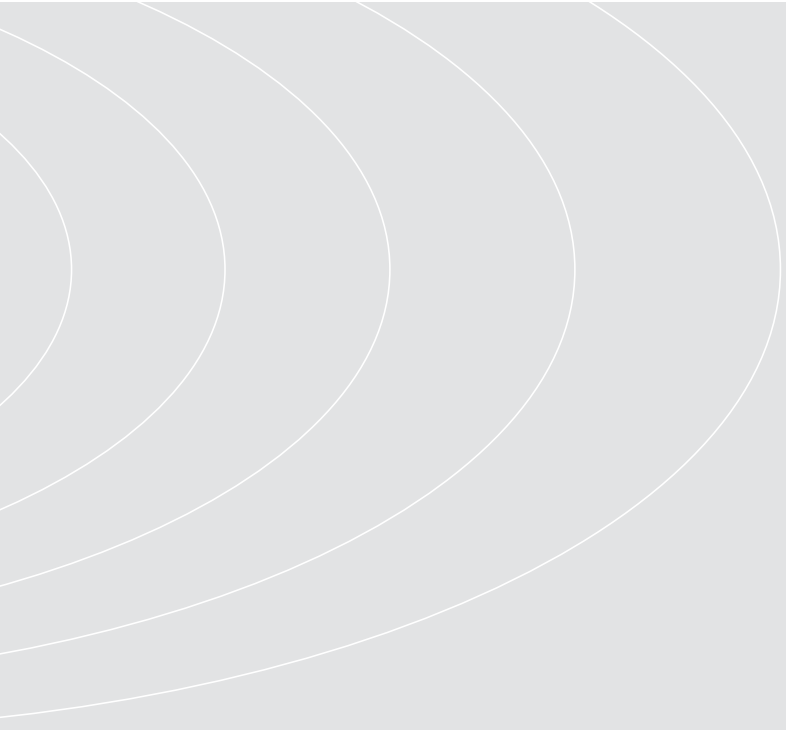
Record date*	07/01/2000	14/06/2000	07/03/2001	02/07/2001	23/08/2002	10/05/2005
Share capital	EUR 400,000	EUR 600,000	EUR 675,000	EUR 1,675,000	EUR 5,025,000	EUR 5,525,000
Capital increase	–	EUR 200,000	EUR 75,000	EUR 1,000,000	EUR 3,350,000	EUR 500,000

* Entry into the Register of Companies

SHARE PRICE TREND

PHÖNIX SonnenAktie® in EUR
18 November 2004 to 30 April 2005
on the Frankfurt Stock Exchange





Good connection

Indispensable – the resources provided by nature and our shareholders. A responsible approach to these resources comes as second nature to Phönix SonnenStrom AG. After all, forging a link between economy and ecology is our core business. However, as parsimonious as we at Phönix SonnenStrom AG are with everything entrusted to us: we like to pass on our energy generously.





Gratifying performance

In 2004, Phönix SonnenStrom AG succeeded in considerably boosting sales, both in the domestic market and abroad, thus significantly reinforcing its market position. In addition, the company is forging ahead in developing new international markets, outside Europe as well. With a sales increase of more than 300 percent, the Large Plant Construction segment made a significant contribution to the above-average growth of the company.

- >> Target figures exceeded in all national sales regions
- >> Intensive expansion of international partnerships, in particular in Spain and Italy
- >> Construction of Central America's first grid-connected photovoltaic plant in El Salvador
- >> Construction and start of operation of "PHÖNIX SonnenPark Waltenhofen", a 400 KW large-scale green-field photovoltaic plant

Management Report

of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos,
for the financial year from 1 January to 31 December 2004

The company was founded on 18 November 1999 and, on 7 January 2000, it was entered into the Register of Companies of the District Court of Munich under HRB no. 129117.

CHANGE IN THE SHARE CAPITAL

In the financial year 2004, the share capital remained unchanged. No resolutions were passed by the Annual General Meeting affecting the share capital.

PERFORMANCE IN THE FINANCIAL YEAR 2004

Macroeconomic development

After three years of stagnation, the German economy grew again in 2004. Real gross domestic product (GDP) rose 1.7 percent year on year. By far the most important engine of the German economy was foreign trade, in particular exports to Asia, the US and Eastern Europe. High energy prices and the unsatisfactory situation on the labour market were factors braking domestic consumer demand.

Capital expenditure failed to make any notable contribution to an economic recovery. There was no sustainable recovery discernible in the 1.7 percent increase in plant and equipment spending, and investment in the construction sector contracted again by as much as 2.5 percent. Lack of growth in real income and the poor labour market situation put pressure on residential building, with tight public-sector budgets hampering public construction spending. Whereas there is no improvement foreseeable in the construction sector, the high level of company profits and the lack of investment activity, which has persisted since 2000, suggest that there is potential for capital expenditure.

All in all, the economic trend in Germany at the turn of the year 2004/2005 was characterised by ups and downs. There is as yet, however, no fundamental improvement in sight.

The economies in Southern and Western Europe so important for the international business of Phönix SonnenStrom AG also expanded at only a moderate rate in 2004. GDP in Switzerland and Austria grew by just under 2 percent respectively. Italy's economic performance posted a mere 1.3 percent, although there appears to be a marked improvement in investment activities. Spanish economic growth was considerably higher at around an annual 2.5 percent.



The average economic growth in the euro zone in 2004 came to just under 2 percent as compared with 3.1 percent in Great Britain, 4.4 percent in the US, and 9.5 percent in China. In 2005, a growth rate of 2 percent, virtually unchanged from 2004, is expected in the euro zone against the backdrop of a somewhat stronger domestic demand and slowing export momentum.

TRENDS IN THE PHOTOVOLTAIC SECTOR

General conditions (Germany)

In the autumn of 2003, the discussion about the amendment to the German Renewable Energy Act (EEG) caused order intake in the photovoltaic (PV) sector to slump initially. In the wake of the passing of the so-called Photovoltaic (PV) Interim Act by the Upper and Lower Houses of German Parliament, new orders had risen significantly by December 2003.

The PV Interim Act is intended to compensate for the expiry of subsidies available through 100,000 Roofs Solar Power Programme by Kreditanstalt für Wiederaufbau. As from 1 January 2004, the Act provided for higher payment rates for PV-generated electricity. For the first time, the Act contained payment rates which were staggered according to the size of the plant and the assembly type (green-field, roof or facade) as opposed to the standard rate for the payment of PV electricity formerly applied in Germany.

On 1 August 2004, the amended version of the Renewable Energy Act came into force, thus replacing the PV Interim Act. The effect of the amendment on the photovoltaic sector was, on the one hand, to reinforce the rights of plant operators while, on the other, raising the payment rates for solar energy fed into the grid. The adoption of the amendment has strengthened and secured the basis for the calculation of photovoltaic projects.

The low level of interest rates also bolstered the demand for photovoltaic systems. Moreover, Kreditanstalt für Wiederaufbau improved the lending conditions for subsidised loans in 2004. Since the start of 2005, there is a new state-subsidised programme which is aimed at small photovoltaic systems and offers finance at an effective annual interest rate of a current 3.99 percent.

Along with the improved political environment, the geopolitical situation has helped to focus attention more strongly on renewable energy. The political situation in Iraq drove oil prices to an all-time high. Alongside the basic risks entailed in the sourcing of energy from the scarce resources of fossil and nuclear energy, the issue of how to secure the supply of energy when this supply is dependent on crisis regions has come more to the forefront.

The rising price of conventional sources of energy has caused the stock market price of electricity from these sources to spiral by more than 50 percent in the last four

years. At the same time, the demand for energy has risen sharply in many developing countries, above all in China.

Renewable energy accounted for almost 10 percent of the German consumption of energy in 2004, which represents a growth of 1.4 percent over the previous year. In 1991, this share still stood at 2.8 percent. According to the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, one of the effects of the Renewable Energy Act has been to prevent 23 million tons of carbon dioxide from being released into the air.

Sales market / demand in Germany

Improved general conditions brought about by the PV Interim Act had driven the demand for photovoltaic systems to new, hitherto unknown heights by the end of 2003. In 2004, demand remained at an extremely high level throughout the year and way outstripped supply.

In the first months of 2004, the majority of solar module manufacturers announced the sale of their annual production. By mid-2004, almost all well-known specialist wholesalers were sold out until the end of the year. In the case of solar modules in particular, the capacity shortfall was notable: there was not enough silicon, the raw material used in the production of solar cells. But also the manufacturers of inverters were unable to keep pace with rising demand. By mid-year, delivery times were up to six months.

The market volume in Germany grew to a peak output of around a 300 megawatts, twice as much as in the previous year. According to the Unternehmensvereinigung Solarwirtschaft, an association of companies in the German solar energy business, sales in the photovoltaic industry came to EUR 1.5 billion, which put Germany ahead of Japan as the world's largest photovoltaic market in 2004.

The scarcity of available raw materials coupled with strong demand caused prices to rise across the whole value chain through to the end customer.

Key data of the German photovoltaic market in 2004

(Grid-connected); source: BSi

Newly installed in 2004 (surface)	3,300,000 m ²
Total surface installed by year-end 2004	6,900,000 m ²
Number of newly installed systems in 2004	40,000
Number of positions	20,000
Growth in 2003	+ 80 %
Growth in 2004	+ 140 %
As per March 2005	

General conditions (international)

In other European countries as well, new instruments were introduced or existing ones revised to promote the photovoltaic market in 2004.

Spain approved the Royal Decree 436/2004 in March 2004 which vastly improved conditions in comparison with the predecessor Act. The new rates paid for PV-generated electricity are now more or less the same as those currently paid in Germany. Additional planning security was also provided by the newly established period of payment which has now been fixed at 25 years. This set of provisions will promote strong market growth in Spain where photovoltaic systems deliver a high energy yield anyway due to the amount of sun. The year 2005 is expected to see the market volume double.

In 2004, the Italian government passed an act which provided for the first-time introduction of a tariff for solar energy fed into the grid. The exact framework conditions are to be specified by a committee in the first half of 2005. Given this measure, the Italian photovoltaic market can be expected to grow rapidly.

In Luxembourg, the photovoltaic boom of the years 2002 and 2003 held steady in 2004 as well. This is the country with the most attractive set of regulations for PV-generated electricity payments, and what is more, investment subsidies are available for photovoltaic systems. Luxembourg has the highest installed photovoltaic output per capita in the world.

The laws on the compensation of PV-generated electricity currently valid in, for instance, Portugal and Slovenia are not attractive enough to make it worth while entering the market. Along with unsatisfactory PV tariffs, there are administrative hurdles which prevent the markets from growing fast. In Austria and Switzerland, the markets are at a low but stable level.

In 2004, there were two important international conferences in Germany on renewable energies. Ambitious goals were formulated at these conferences. Jürgen Trittin, Germany's Minister for the Environment, commented that the "European Conference for Renewable Energy", held in Berlin from 19 to 21 January, had set a "clear signal for promoting renewable energy worldwide". He went on to say that, by the year 2020, there is a likelihood that the share of renewable energy in energy consumption may have risen to as much as 20 percent. The central issues at the "renewables 2004" global conference in Bonn which took place from 1 to 4 June dealt with creating better political conditions designed to foster renewable energy and provide better financing options.

Procurement market /suppliers

In expectation of significant improvement in the business environment, Phönix SonnenStrom AG secured large supply quotas of modules back in the autumn of 2003, either by commitments to order or by way of framework agreements. This has enabled the company to grow much faster than the solar market and win new market shares. In Germany, the company's market share rose to 6.4 percent in 2004 measured against an overall market volume of 300 MW.

The trust vested in building close business relations with suppliers, underpinned by long-term agreements, has paid off. The company intends to pursue this policy in the years ahead as well. Although manufacturers did not always adhere to their delivery commitments, Phönix SonnenStrom AG was able to keep delays in delivery to a minimum.

Brisk demand in Germany and worldwide had led to capacities being ramped up at all production levels in the photovoltaic sector. The effect of newly created capacity will, however, filter through in the course of 2005 at the earliest.

PROFITABILITY, BALANCE SHEET, FINANCIAL POSITION AND NET WORTH

In the financial year 2004, Phönix SonnenStrom AG significantly reinforced its market position in Germany.

Sales soared 186 percent to EUR 67.2 million (2003: EUR 23.5 million). Due to demand which had already built up by the start of the year and was way in excess of supply, the sales trend was atypical in comparison with previous years. Formerly, sales over the course of the year tended to be low in the first quarter, then rise in the second and third quarter to peak in the fourth. At year-end, sales rise as payments for PV-generated electricity from newly installed photovoltaic systems fall on 1 January respectively. Accordingly, sales in the fourth quarter of the financial year 2003 were more than five times the level of the first quarter.

In the financial year 2004, the first quarter started off at a very high level, with a sales volume of EUR 12 million (2003: approximately EUR 1.5 million). In the first quarter of 2004 alone, sales thus posted around 50 percent of the total sales generated in 2003. In the remaining quarters of 2004, sales had climbed to around EUR 20 million in the fourth quarter (2003: EUR 9 million), which was nearly double the first quarter.



As before, the main growth driver was domestic business, the mainstay being trading in systems and components and the construction of large-scale photovoltaic plants. Domestic sales jumped around 180 percent to EUR 48 million, and the sales of large-scale photovoltaic plants soared by almost 300 percent to EUR 16 million.

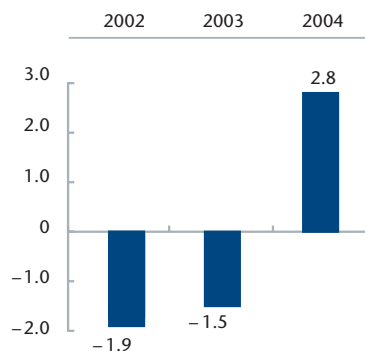
The trend of international business also continued to be most gratifying. Sales in 2004 came to EUR 2.65 million. The great demand in Germany for modules as early as the start of the year meant that the International Business segment did not have enough modules. As sales in the International Business segment tend to peak in the third and fourth quarter, orders in the second half of the year could no longer be adequately covered.

New orders in 2004 came to more than EUR 76 million overall, thus almost trebling in a year-on-year comparison. Whereas, in previous years, order intake in the first months was well below 10 percent of the total volume for the year, orders in the first four months already made up around 50 percent of orders placed in 2004. Actual order intake was significantly higher. Due to the shortfall in the availability of modules, we were only able to confirm part of the customer orders. For this reason, order intake (which corresponds to confirmation of our customers' orders) fell sharply in subsequent months. By mid-year, once supply quotas had been secured, new orders rose again.

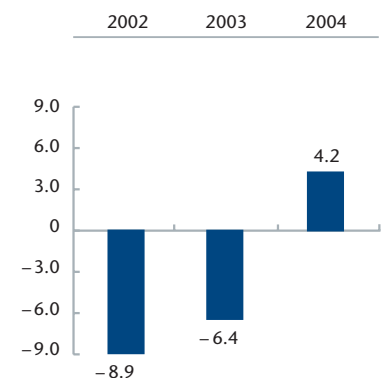
The considerably longer delivery time and the extraordinarily high wave of demand at the start of the year caused a time lag between order intake and sales in 2004. In some cases, it was only possible to complete orders from the first quarter in the second or even the third quarter.

The operating result (EBIT) climbed by EUR 4.3 million, from minus EUR 1.5 million in 2003 to plus EUR 2.8 million in 2004. The EBIT margin stood at 4.2 percent.

EBIT in EUR million



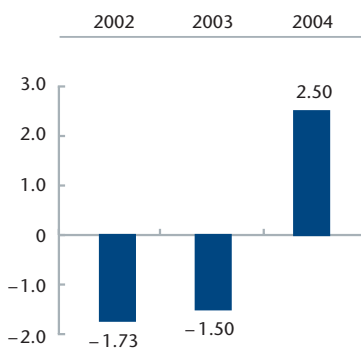
EBIT margin in percent



Due to changes in legislation at the start of the year 2004, the loss carryforward resulting from previous years could not be used in full. In 2004, for the first time, income tax amounting to some EUR 0.25 million became due and payable.

Net of interest and tax, the company generated net profit for the year of EUR 2.5 million, which is an increase of EUR 4 million in comparison with 2003. Accordingly, 2004 marked the year in which the company achieved the best annual result in its history and made a profit for the first time.

Annual net result in EUR million



Earnings per share advanced from minus EUR 0.30 to EUR 0.50.

Despite the growth in its business, Phönix SonnenStrom AG financed its activities almost exclusively through its cash flow in 2004.

The equity ratio fell year on year, from 78 percent to around 59 percent. It is therefore still relatively high. This decline was mainly due to the expansion of business activities which led to a higher amount of committed capital. The increase was reflected particularly by inventory and is attributable to the difficulties in procuring modules. At the same time, on the reporting date, inventory disclosed was offset by the respective orders.

New products

In 2004, Phönix SonnenStrom AG launched a number of innovative products on the German and European market.

An agreement was signed with RWE SCHOTT Solar GmbH on the exclusive marketing of the monocrystalline solar module ASE 200. The high-performance solar cells of this module achieve an efficiency level of 14.9 percent in the 205 Watt version; the efficiency of comparable modules is 13 to 14 percent. A total of 2.6 megawatts of this module type have been sold.

Similarly, Phönix SonnenStrom AG exclusively launched the first solar module with a 6 inch cell manufactured by the French company, Photowatt International S.A.S. (type PW 6-230), placing it successfully in the German market. 6 inch cells are increasingly becoming the new industry standard.

New organisation structure

The company has been restructured and optimised to take account of its rapid expansion and plans for an OTC listing. With this in mind, the tasks of the Board of Directors were reallocated. Dr. Murray Cameron, who joined the company in March 2003 and heads up the International Business segment, was appointed to the Board of Directors and put in charge of operations. His new responsibilities now include logistics, procurement, sales support and marketing.

With a view to improving customer orientation, a Customer Service Initiative was launched mid-2004. The aim of this initiative is to focus the efforts of the company more strongly on customer service and support. The first step was to take stock of the company internally and to carry out a strength and weaknesses analysis. At this early stage, selected customers and suppliers are brought into, for instance, the decision making process involving end-customer support, and into marketing activities. The Customer Service Initiative will be pursued and intensified in 2005.

Domestic sales

The already ambitious expansion targets set for the company's National Business segment were way exceeded. All sales regions, which have been organised into profit centres since 2003, have considerably outperformed their target figures and are operating at a profit.

The performance of the Bad Segeberg profit centre which concentrates on northern Germany is particularly pleasing. It is evident from this profit centre that the company's commitment to developing the market, particularly in this region where demand is rising, is now paying off by giving us a sharp competitive edge.

The financial year was characterised by huge demand, on the one hand, and a shortfall in the availability of modules, on the other. The supply bottleneck was exacerbated further when inverters also became hard to come by. The impact of increases in capacity by the manufacturers of inverters had taken effect by autumn 2004. Accordingly, delivery times returned to normal again.

Unfortunately, we had to refuse orders and distribute the volume available according to a quota system and customer groups. Preference was given to supplying sales partners with whom the company has maintained long-standing business relationships, thereby fostering these partnerships. At the same time, new and interesting customers with development potential were won with the aim of strengthening the company's sales network for the future.

As a number of the suppliers of modules were unable to keep to the delivery schedule, a fair amount of the company's capacity was tied up in dealing with changes in delivery deadlines or in the type of module and coordinating these changes with customers.

In October 2004, Joachim Simonis, an engineering expert, joined the company as the new manager of the National Business segment. Mr Simonis has long years of experience in building up and optimising the sales units of market leaders in the electrical engineering sector. His task is to restructure sales operations and position them to meet the challenge of new growth in the years ahead. This also includes developing the market throughout Germany with a clear focus on the customer and realigning sales operations to accommodate any emerging changes in customer requirements and customer structure.

International sales

In the International Business segment, sales came to EUR 2.65 million in 2004, which represents an increase of 27 percent year on year. As National Business grew at a faster pace, the relative share of international activities in total sales fell from 9 to 4 percent.

In 2004, the company entered new foreign markets, Luxembourg having played a major role in its International Business segment in 2003. Sales in Spain and Italy in particular rose, as we have built up our network of partners in these countries. The partners we look for are competent specialist dealers who have a dominant position in the respective region. The regional markets are serviced directly through these partnerships. In 2004, with these new target markets in mind, we concentrated on training our personnel in communicating effectively in the respective foreign language.

The "Solar Generation" paper issued by the European Photovoltaic Industry Association (EPIA) and Greenpeace at the end of 2004 forecasts dynamic growth in the markets worldwide for photovoltaic systems. Particular emphasis was placed on the significance of solar markets outside Europe in the medium to long term.



Against this background, Phönix SonnenStrom AG readjusted its plan for expansion at the end of 2004 to include countries further afield than Europe. Accordingly, we signed agreements for the installation of a grid-connected plant with a peak power output of 20 kilowatts in El Salvador. Upon completion in the spring of 2005, this will be the first photovoltaic plant of its kind in Latin America. The project also marks our entry into the market in this region. We believe that the greatest market potential here is in stand-alone plants and not in grid-connected photovoltaic systems.

Large-scale photovoltaic plant construction

In the Large Plant Construction segment, sales rose to a good EUR 16 million in 2004, up 308 percent year on year. The shortfall in solar modules and partly late deliveries put the brakes on an even faster growth rate.

The amendment to the Renewable Energy Act makes the operation of larger scale photovoltaic systems in particular more attractive. In 2004, this boosted the demand of fund initiators and companies intending to build photovoltaic plants with a peak output substantially above 100 kilowatts. Companies mainly want roof-mounted systems. Large-scale photovoltaic plants in the context of funds are mainly constructed as free-standing installations on green-field sites. Due to the rising costs of modules, preference is increasingly given to thin film modules in photovoltaic green-field plants as these modules are relatively cost effective. We expect this trend to accelerate in 2005.

Phönix SonnenStrom AG has found an excellent product in the thin film module MA 100 made by the Japanese manufacturer Mitsubishi Heavy Industries Corp. In April 2004, "Phönix SonnenPark Waltenhofen", an almost 400 kilowatt large-scale photovoltaic plant on a green-field site, was inaugurated. Similarly, in 2004, we used the same modules to implement a one-megawatt project in Buttenwiesen in Bavaria. This is the world's largest photovoltaic green-field plant with thin film modules to be completed in a single construction stage.

Customers place considerable importance on the best possible use of restricted roof surface. Due to their greater efficiency, crystalline solar modules are generally used for this type of installation. In 2004, the scarce availability of such modules made it impossible to fulfil all our customers' wishes. We therefore concentrated on target customer groups which promise great business potential in the coming years.

In the large-scale PV plant construction business, the maintenance, operation and service of such plants are becoming increasingly important issues. With large plants which cannot be maintained by the investor or initiator, the demand for these services is rising. We see growing sales potential in this area in the future. The special expertise of Phönix SonnenStrom AG confers a considerable competitive advantage which we wish to use well.

In terms of organisation, we have restructured the Large Plant Construction segment by separating sales from construction operations. By involving expert subcontractors, we were able to respond flexibly to the need for more personnel in peak times. Availing ourselves of this option has enabled us to keep fixed costs for personnel in assembly at a constant level in comparison with 2003, despite the sharp increase in sales. Moreover, involving subcontractors has lessened the warranty risk.

Large Plant Construction in Ulm now has a new address: In the summer of 2004, the segment relocated to the "Obere Donaubastion" which is a listed building.

Listing

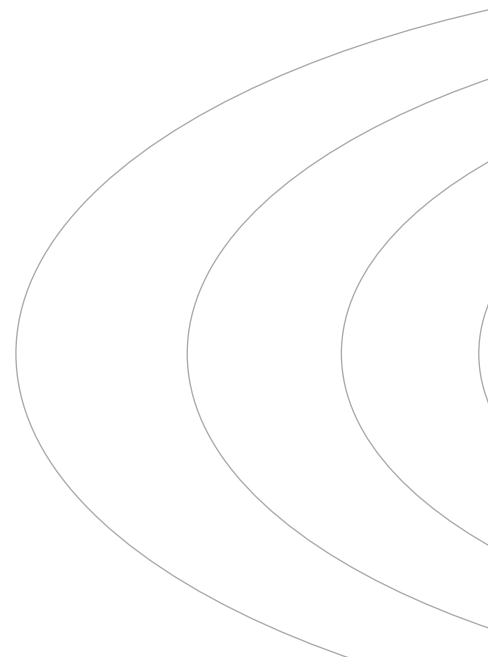
On 30 July 2004, Annual General Meeting resolved that the class of shares should be changed from registered shares to bearer shares as a preparatory measure for the OTC listing of the PHÖNIX SonnenAktie® (the shares of Phönix SonnenStrom AG). In November of the same year, 5,025,000 shares of Phönix SonnenStrom AG were admitted for trading on the Munich Stock Exchange in the OTC segment, and trading began on 18 November 2004. At the same time, trading began on the stock exchanges of Frankfurt am Main, Berlin/Bremen and Stuttgart. The PHÖNIX SonnenAktie® was thus traded via a professional system on the various stock exchanges. Moreover, new investors are now able to participate in the growth of the company. The initial price of the share was EUR 8.50. At year-end, the share price stood at EUR 7.15.

Employees

The number of employees rose from 41 at the start of the financial year to 46 by the end (excluding temporary and external staff), which is the equivalent of 43 full-time positions. Including temporary and external staff, the number of people employed by Phönix SonnenStrom AG came to 69 at year-end.

Since September 2004, Phönix SonnenStrom AG has offered a practical training programme for the profession of office clerk. In offering this programme, it is Phönix SonnenStrom AG's intention to bind young people to the company and, in the long term, appoint employees to skilled positions from among its own ranks. With this in mind, a systematic concept designed to develop personnel is to be drawn up and implemented in 2005.

At the start of the year 2004, all personnel were offered the option of variable remuneration based on individually agreed goals enabling them to take part in the profit of the company as another measure to raise motivation.



Holdings

Phönix Projekt & Service AG, a subsidiary company based in Sulzemoos, whose scope of tasks in 2004 included the initiation of Phönix SonnenFonds and the sale of the resulting shares, closed the financial year with a net loss of EUR 118,808.

On 1 September 2004, Dr. Torsten Hass was appointed as sole authorised signatory and Chairman of the Board of Directors of the company. Matthias Bäcker, the former Chairman of the Board, stood down on 30 November 2004.

In June 2004, the company launched the prospectus for the "Phönix SonnenPark Waltenhofen" closed-end fund. The limited liability capital was EUR 1,752,000. The fund was closed at the end of the year. In the year under review, photovoltaic plants and special-purpose companies with a peak output totalling 235 kilowatts were also sold.

In future, the sale and financing of large photovoltaic facilities and smaller, roof-mounted photovoltaic systems will be at the forefront of business activities.

In the reporting year, a green-field plant with a peak output of more than five megawatts was developed in collaboration with Phönix SonnenStrom AG. Phönix Projekt & Service AG anticipates that the project will be completed in 2005. The earnings generated by this project are likely to generate a positive operating income. In the future, the company plans to install a number of roof-mounted systems with peak outputs ranging between 25 and 600 kilowatts.

An application for the deletion of Sulzemoos-based SolPlan GmbH in liquidation from the Register of Companies was made in January 2005.

RISK REPORT

The risks arising from entrepreneurial activities are identified by the Board of Directors on an ongoing basis, analysed and, in as much as is possible and entrepreneurially viable, kept to a minimum and passed on to third parties. The company has set in place modern accounting and controlling systems. Moreover, it is in position to adjust its internal workflows and structure swiftly to take account of sharp growth.

There has been no tax audit on Phönix SonnenStrom AG since it was founded. Alongside the general entrepreneurial risks, a tax audit may result in economic risks for the company.

The current management of Phönix SonnenStrom AG has long-standing experience in photovoltaics. There is extensive experience of the market, and contacts with most important decision makers in the sector have been established. The experience and knowledge of the board members is widely diversified. In as much, there is a strong dependency on individuals. If the whole Board of Directors were to leave the company its existence would be threatened.

The Board of Directors does not currently consider there to be any serious risks at the political level which can have a sustained impact on the development of the market in the current financial year. However, there may be a potential risk in Germany incurred by changes in the environment in general and by the German federal election in 2006 in particular.

The development of the company and its sustained growth is dependent to a great extent on the expertise of its personnel. Competitive pressure can lead to well qualified executives and employees being poached or the company not being able to find enough suitable employees long term.

The rising price of raw materials can affect the price trend of solar modules and other components of photovoltaic systems. There is a risk that investing in photovoltaic plants becomes no longer economically viable because prices are too high, the worst case scenario being a collapse of the photovoltaic market.

The construction of large-scale photovoltaic power plants is one of the core competences of Phönix SonnenStrom AG. The plant construction sales volume is currently growing at an above-average rate. Phönix SonnenStrom AG is responsible for the full construction of large-scale plants. In this process, manufacturer warranties and guarantees for components are passed on. Warranty risks arising from assembly activities are being increasingly transferred to the subcontractors. There is nonetheless a fair amount of risk from warranty claims, particularly in the plant construction business.

In the area of specialist wholesalers in particular, Phönix SonnenStrom AG chiefly operates in a market environment where the market entry barriers are relatively low. Competition may therefore become fiercer if companies from other countries enter the market. Harsher competition is generally accompanied by a decline in the price which a company can command on the market which may, in turn, have a considerable impact on its growth volume, the sales revenues and the success.

The Board of Directors sees no indication of risks that could imperil the existence of the company as a going concern.



SPECIAL EVENTS AFTER THE REPORTING DATE

In the year 2005, two major framework agreements have been signed with module manufacturers so far. Phönix SonnenStrom AG anticipates buying solar modules with an output of more than eight megawatts in total from the French manufacturing company Photowatt International S.A.S. These modules include the solar module type PW 6-230 to which Phönix SonnenStrom AG has the exclusive marketing rights in Germany in 2005, and the new monocrystalline module type PWM 1650 which Phönix SonnenStrom AG will bring to the German market.

We have also signed a framework agreement with RWE SCHOTT Solar GmbH on the supply of over eight megawatts worth of solar modules, which makes Phönix SonnenStrom AG the largest customer of this German manufacturer.

Phönix SonnenStrom AG is currently building Central America's first grid-connected photovoltaic plant in El Salvador. Modules with a peak output of 20 kilowatts have been installed on the roof of the German School in Antiguo Cuscatlán, a suburb of the city of San Salvador. The plant is due to become operational in April 2005.

OUTLOOK

The global shortage of solar silicon, the most important raw material in the manufacturing of solar modules, is set to persist in 2005. Phönix SonnenStrom AG nonetheless predicts sharp growth in international solar markets in the current year. The market volume in Germany of around a 300 megawatt peak output in 2004 may well expand to around 400 megawatts in 2005.

In 2004, more efficient workflows using improved planning and control instruments have already generated a considerable increase in per capita sales which soared by around 150 percent to EUR 1.5 million in 2004 (basis: full-time equivalent). In 2005 as well, the structure and workflows of the company will be optimised consistently with a view to minimising costs.

Phönix SonnenStrom AG intends to strengthen its market position in Germany. The to date four sales regions will be restructured in 2005, and their number will increase substantially. We believe that this will deliver enhanced customer orientation. In addition, the existing customer structure will be optimised with the aim of binding defined customer groups more strongly to Phönix SonnenStrom AG. This process of streamlining is to have been completed by the end of 2005 and is expected to pave the way for further rapid growth in 2006 and beyond.

Thanks to its outstanding technical competence, the Large Plant Construction segment will complete large-scale photovoltaic power plants in 2005 which will considerably exceed the current output class of one megawatt. Moreover, in cooperation with the International Business segment, preparations will be made for the construction of large-scale plants abroad. The Large Plant Construction segment is currently focusing its sales and marketing efforts more strongly on individual target groups. Particular attention will be paid to keeping the cost structure lean. We are thus creating the prerequisites for rapid and profitable expansion to take place as soon as there is an end to the shortfall in modules.

In the year 2004, the International Business segment stepped up the positioning of its activities in selected target countries. Measures included, for instance, hiring new employees, preparing marketing material in five languages, and the targeted expansion of the network of partners. The medium-term goal of the segment is to make a significant contribution to the total sales of the company.

In view of its competitive strength proven in 2004 and reinforced by numerous measures to increase sales potential and enhance processes, Phönix SonnenStrom AG anticipates that it will generate sales growth which will outperform the market in 2005 as well. The modules secured at the start of 2005, either by way of committed orders or by framework agreements, give rise to expectations for an increase in sales of at least 30 to 40 percent. The operating result in 2005 is likely to be a sizeable plus.

Sulzemoos, 31. März 2005
Phönix SonnenStrom Aktiengesellschaft
The Board of Directors



Dr. A. Hänel

(CEO and Chairman of
the Board of Directors)



M. Bächler

(Chief Technology Officer)



Dr. M. Cameron

(Chief Operating Officer)

Annual Financial Statements – Balance Sheet

for the financial year 1 January 2004 to 31 December 2004

Assets	31/12/2004 EUR	31/12/2003 EUR
A. Fixed assets		
I. Intangible assets		
Franchises, industrial property rights and similar rights and rights on such rights and assets	462,040.78	562,108.00
II. Fixed assets		
Property, plant and equipment	505,441.60	451,830.00
III. Financial assets		
1. Shareholdings in affiliated companies	396,000.00	396,000.00
2. Holdings	530,105.00	0.00
	1,893,587.38	1,409,938.00
B. Current assets		
I. Inventories		
1. Merchandise	7,269,962.70	3,317,101.50
2. Payments on account	2,316,928.77	0.00
	9,586,891.47	3,317,101.50
II. Receivables and other assets		
1. Accounts receivable	2,471,726.70	2,588,802.79
– of which with a residual term of more than one year: EUR 0.00 (2003: EUR 0.00)		
2. Receivables from affiliated companies:	16,153.87	0.00
– of which with a residual term of more than one year: EUR 0.00 (2003: EUR 0.00)		
3. Other assets	1,984,410.39	268,337.79
– of which with a residual term of more than one year: EUR 7,170.47 (2003: EUR 11,402.90)		
	4,472,290.96	2,857,140.58
III. Securities		
Other securities	752,824.79	1,505,649.59
IV. Cash on hand and deposits in banks	2,467,416.12	2,094,475.16
	17,279,423.34	9,774,366.83
C. Prepaid expenses	45,030.20	15,280.70
Total assets	19,218,040.92	11,199,585.53

Liabilities & shareholders' equity	31/12/2004 EUR	31/12/2003 EUR
A. Equity		
I. Subscribed capital	5,025,000.00	5,025,000.00
Authorised but unissued capital EUR 120,000.00 (2003: EUR 120,000.00)		
II. Capital reserve	7,950,000.00	7,950,000.00
III. Loss carryforward	- 4,242,792.16	- 2,743,303.76
IV. Net profit (2003: net loss)	2,520,576.15	- 1,499,488.40
	11,252,783.99	8,732,207.84
B. Provisions		
1. Provision for taxes	264,000.00	0.00
2. Other provisions	891,564.00	449,974.40
	1,155,564.00	449,974.40
C. Liabilities		
1. Due to banks	1,513,463.73	820.17
- of which with a residual term of up to one year: EUR 1,292,332.98 (2003: EUR 820.17)		
2. Prepayments received on orders	472,731.12	67,918.83
- of which with a residual term of up to one year: EUR 472,731.12 (2003: EUR 67,918.83)		
3. Trade creditors	4,201,723.92	1,316,857.15
- of which with a residual term of up to one year: EUR 4,201,723.92 (2003: EUR 1,316,857.15)		
4. Due to affiliated companies	0.00	70,552.10
- of which with a residual term of up to one year: EUR 0.00 (2003: EUR 70,552.10)		
5. Other liabilities	621,774.16	561,255.04
- of which from tax: EUR 320,159.62 (2003: EUR 326,228.02)		
- of which due to social security: EUR 52,339.69 (2003: EUR 47,353.72)		
- of which with a residual term of up to one year: EUR 621,774.16 (2003: EUR 561,255.04)		
	6,809,692.93	2,017,403.29
Total liabilities & shareholders' equity	19,218,040.92	11,199,585.53

Income Statement

for the financial year from 1 January 2004 to 31 December 2004

	2004 EUR	2003 EUR
1. Sales revenue	67,164,412.96	23,464,031.22
2. Other operating income	203,699.98	252,113.26
3. Cost of materials		
a) Expenses for materials purchased	55,799,952.93	20,144,265.26
b) Expenses for services purchased	2,341,711.65	436,720.76
4. Personnel costs		
a) Wages and salaries	2,292,664.26	1,836,027.03
b) Social security contributions and expenses for company pension fund and pensions paid – of which for company pension fund: EUR 3,311.76 (2003: EUR 3,492.26)	351,956.89	324,800.88
5. Amortisation of intangible assets and depreciation of tangible assets	256,349.54	254,520.20
6. Other operating expenses	3,496,446.48	2,216,497.95
7. Income from other securities and loans which are part of financial assets – of which from affiliated companies: EUR 0.00 (2003: EUR 2,627.78)	0.00	2,627.78
8. Other interest and similar income – of which from affiliated companies: EUR 6,868.75 (2003: EUR 0.00)	149,370.98	45,888.40
9. Writedowns on financial assets and on securities held as current assets	0.00	48,000.00
10. Interest and similar expenses – of which to affiliated companies: EUR 0.00 (2003: EUR 0.00)	18,952.77	375.52
11. Ordinary profit	2,959,449.40	– 1,496,546.94
12. Extraordinary income	5,000.00	0.00
13. Extraordinary expenses	192,341.13	0.00
14. Extraordinary result	– 187,341.13	0.00
15. Taxes on income	246,510.26	0.00
16. Other taxes	5,021.86	2,941.46
17. Net profit (2003: net loss)	2,520,576.15	– 1,499,488.40
18. Loss carryforward from the previous year	– 4,242,792.16	– 2,743,303.76
19. Balance sheet loss	– 1,722,216.01	– 4,242,792.16

Cash Flow Statement

for the financial year from 1 January 2004 to 31 December 2004

	2004 EUR '000	2003 EUR '000
1. Profit/loss for the period net of extraordinary items	2,708	- 1,499
2. Depreciation (+) of fixed assets	+ 256	+ 390
3. Increase (+) /decrease (-) in provisions	+ 706	- 251
4. Loss (+) /income (-) from the disposal of fixed assets	+ 2	- 1
5. Other expenses (+) /income (-) not affecting payments	+ 11	+ 59
6. Incoming and outgoing payments from extraordinary items	- 187	0
	+ 3,496	- 1,302
7. Decrease (+) / increase (-) in inventories, trade accounts receivable and other assets which are not allocable to investment or finance activities	- 7,172	+ 3,223
8. Decrease (-) / increase (+) in trade creditors and other liabilities which are not allocable to investment or finance activities	+ 4,519	- 3,098
9. Cash flow from operating activities	+ 843	- 1,177
10. Payments from the disposal of fixed assets	+ 25	0
11. Disbursements for investments in tangible assets (-)	- 223	- 150
12. Disbursements for investments in intangible assets (-)	- 14	- 5
13. Disbursements for investments in financial assets (-)	- 530	0
14. Cash flow from investment activities	- 742	- 155
15. Cash inflow from finance facilities (+)	273	0
16. Disbursements for the redemption of finance facilities (-)	- 1	- 3
17. Cash flow from financing activities	272	- 3
18. Change in cash and cash equivalents	+ 373	- 1,335
19. Cash and cash equivalents at the start of the period	+ 2,094	+ 3,429
20. Cash and cash equivalents at the end of the period	+ 2,467	+ 2,094

Cash flow statement pursuant to the German Accounting Standards (DRS) No. 2



Beautifully systematic

Phönix SonnenStrom systems are everything one expects from good technology: functional, sophisticated, systematic. One part meshes perfectly with the other – streamlined in construction and operations. But the final outcome of all this is much more than the sum of its parts. We call it solar electricity.





Sound finances

Despite the extensive expansion of its business activities, Phönix SonnenStrom AG financed itself almost exclusively from its cash flow, thereby retaining its still high equity ratio. On the reporting date, inventories were offset by the corresponding volume of orders.

- >> Best result in the history of the company
- >> Sales increase of 186 percent to EUR 67.2 million
- >> Operating result (EBIT) up by EUR 4.3 million, an increase from minus EUR 1.5 million to plus EUR 2.8 million
- >> EBIT margin of 4.2 percent

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION ON THE PREPARATION OF ACCOUNTS AND VALUATION

The annual financial statements of Phönix SonnenStrom AG, Sulzemoos, have been drawn up in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act. For the first time in the financial year 2004, Phönix SonnenStrom AG, Sulzemoos, exceeded the size specified under Section 267 para. 2 of the German Commercial Code, which means that it is a large incorporated company within the meaning of the provisions of the German Commercial Code. As the size classification was exceeded for the first time, the provisions valid for large incorporated companies are, however, not applicable in the year under review.

Breakdown

The breakdown of the balance sheet and the income statement accords with the provisions of Sections 266 and 275 of the German Commercial Code, taking account of the supplementary regulations laid down in the German Stock Corporation Act.

We have chosen the "total cost"-type of short-term accounting for the presentation of the income statement.

In as much as it serves the purpose of enhancing transparency, where we have an option we have indicated our choice accordingly in the Notes to the Financial Statements.

As in the previous year, inventory carried as assets have been shown in the year under review under "Merchandise" whereby account has been taken of the fact that a clear allocation of merchandise to "Plant construction" or "Merchandise held for resale" is not possible upfront.

Valuation

Intangible assets have been valued at the cost of acquisition minus scheduled amortisation. In as much as assets are subject to wear and tear, straight-line depreciation is applied for the duration of the anticipated economic life as from the time of purchase.



Tangible assets are valued at their cost of acquisition minus scheduled straight-line depreciation. Movable **fixed assets** purchased in the year under review in an amount of up to EUR 410 are fully depreciated within the scope of the respective tax regulations.

Financial assets are always carried at their cost of acquisition plus the ancillary costs of acquisition. In the case of anticipated permanent impairment, writedowns are based on the attributable value.

Inventories are recognised at the cost of acquisition plus the ancillary costs of acquisition. The cost of acquisition of assets disclosed under "Merchandise" were calculated under the assumption that the assets first bought will be those first used.

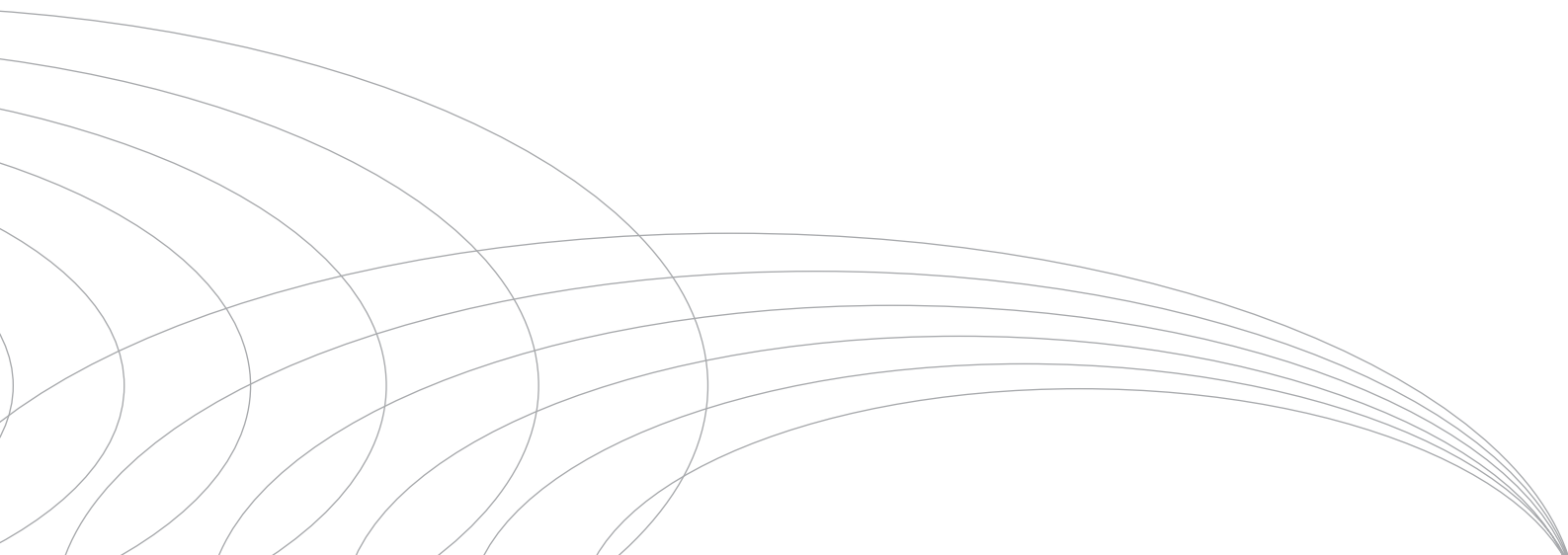
Receivables and other assets are valued at their nominal value or at the lower attributable value. To cover the general credit risk, a general provision of 1 percent was established for accounts receivable where no valuation allowance for losses has been made.

Sufficient transfers are made to **provisions** to cover the amount of anticipated obligations or the costs incurred.

Liabilities are recognised at their nominal value.

Foreign currency translation is carried out at the exchange rate of the respective currency on the reporting date, taking account of the lower (assets) or higher (liabilities) of cost or market.

Expenses and income are recognised in the financial year in which they occur.



2. NOTES ON THE INDIVIDUAL ITEMS OF THE FINANCIAL STATEMENTS

BALANCE SHEET

Notes on the individual items of fixed assets and investments

The changes in the individual items of fixed assets and investments in the financial year 2004 are shown in a separate table at the end of the Notes in accordance with Section 268 para. 2 of the German Commercial Code.

The following table is a breakdown of the **financial assets**:

Shareholdings in affiliated companies

Company	Headquarters	Stake	Equity (EUR)	Result (EUR)
SolPlan GmbH i.L. ¹	85254 Sulzemoos Kirchstraße 16	100 %	– 79,811.72	– 11,947.07
Phönix Projekt & Service AG	85254 Sulzemoos Hirschbergstraße 8	100 %	132,000.00	– 118,807.92

¹ Due to liquidation, reporting date 30/09/2004

In addition, the following indirect stake is held via the subsidiary, Phönix Projekt & Service AG:

Company	Headquarters	Stake	Equity (EUR)	Result (EUR)
Phönix SonnenFonds Verwaltungs GmbH	85254 Sulzemoos Hirschbergstraße 8	100 %	30,924.52	1,189.99

In the financial year 2004, a **stake** was purchased in Phönix SonnenFonds GmbH & Co. KG B1 in the amount of EUR 530,105:

Company	Headquarters	Stake	Equity (EUR)	Result (EUR)
Phönix SonnenFonds GmbH & Co. KG B1	85254 Sulzemoos Hirschbergstraße 8	31.2 %	1,836,075.00	– 416,517.36

An unscheduled writedown of EUR 38,823.98 was made in 2002 on the lower attributable value on the reporting date of the shares held in SolPlan i.L. GmbH in accordance with Section 253 (2) of the German Commercial Code.

Under "Other assets", EUR 80,349.31 pertains to receivables from companies in which a participating interest is held.

Equity

Upon the resolution of the Annual General Meeting of 30 July 2004, the registered shares were converted into bearer shares. The **share capital** of EUR 5,025,000 is now divided up into 5,025,000 no-par bearer shares and was fully paid up on the reporting date of the annual financial statements.

The **approved capital** of the company came to EUR 2,512,500 on the reporting date.

The **authorized but unissued capital** amounts to EUR 120,000, divided into 120,000 bearer shares.

The **capital reserve** contains a shares premium in accordance with Section 272 para. 2 no. 1 of the German Commercial Code.

The following table is a breakdown of **other provisions**:

Pending invoices	EUR	122,425.00
Warranties	EUR	259,837.00
Vacation entitlements and claims for overtime	EUR	88,371.00
Cost of selling shares – input tax	EUR	51,129.00
Costs associated with the annual financial statements	EUR	34,000.00
Other	EUR	335,802.00

The following table is a breakdown of the **liabilities**:

	Total 2004 EUR '000	of which with a residual term of			Total 2003 EUR '000
		up to 1 year EUR '000	1 to 5 years EUR '000	over 5 years EUR '000	
Liabilities					
Due to banks	1,513	1,292	221	0	1
From prepayments	473	473	0	0	68
Trade creditors	4,202	4,202	0	0	1,317
Due to affiliated companies	0	0	0	0	71
Other	622	622	0	0	561
Total liabilities	6,810	6,589	221	0	2,018

Liabilities due to banks in the amount of EUR 1,240,000 are secured by way of assignment as security of the respective total stock of photovoltaic modules and by the blank assignment of all existing and future accounts receivable, in the amount of EUR 273,000 through the pledging of the limited partner's shares in Phönix SonnenFonds GmbH & Co. KG B1, Sulzemoos, and by way of assignment of a financed vehicle.

INCOME STATEMENT

Sales revenue of EUR 67,164,412.96 comprise EUR 51,093,819.27 from commercial transactions and EUR 16,070,593.69 from plant construction.

Other operating expenses include expenses of EUR 73,271.37 not related to the accounting period.

Other operating income include income of EUR 98,908.78 not related to the accounting period.

Extraordinary result comprises income and expenses in connection with the loss of solar modules through theft.

3. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

Contingent liabilities

The reporting company issued a Letter of Comfort on behalf of its subsidiary SolPlan GmbH i.L. SolPlan GmbH i.L. has been in liquidation since 1 October 2003 and has been deleted from the Munich Register of Companies through an entry made on 3 March 2005.

The company has issued an absolute guarantee of EUR 15,338.76 in favour of SolPlan GmbH i.L., Sulzemoos, for all obligations vis-à-vis Sparkasse Fürstenfeldbruck.

For all performance bonds, prepayment bonds and bonds securing contractor's performance undertaken by the bank, time deposits of EUR 436,000 have been pledged as a security for guarantee credit facilities.



Other financial obligations

The company has financial obligations of EUR 1,563,000 from various lease, maintenance and service contracts, whereby the underlying assumption is a contract duration of 10 years for lease contracts signed for an undefined period. Of this total of EUR 1,563,000, an amount of EUR 177,000 is due and payable within one year; the remaining amount of EUR 780,000 has a residual term of over five years.

On the reporting date, there was a commitment of EUR 485,000 from a number of purchase agreements.

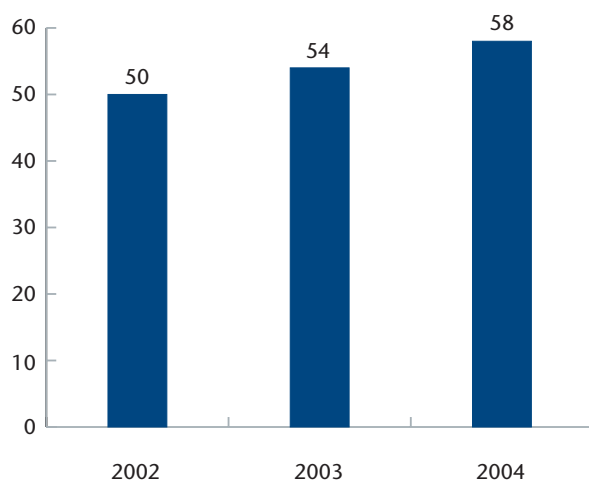
4. ANNUAL AVERAGE NUMBER OF EMPLOYEES

In the financial year 2004, the company had an average of 58 people/month in its employment. The employees include:

Full-time employees	44
Temporary staff	14

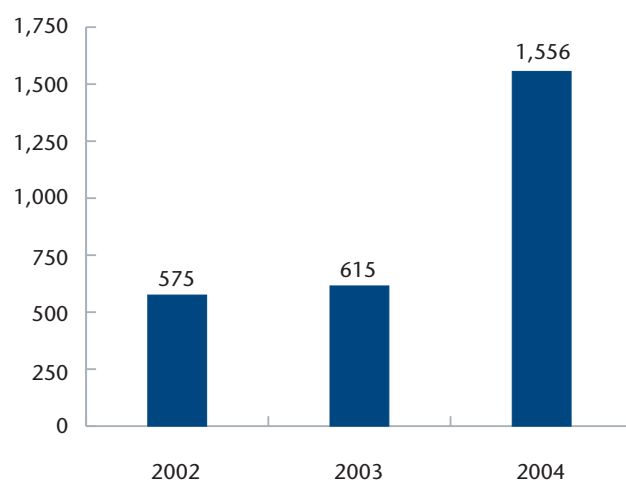
Employees

Number of people



Sales/ per employee in EUR '000

Basis: full-time equivalent



5. EXECUTIVE BODIES OF THE COMPANY

Board of Directors

Dr. Andreas Hänel
Sulzemoos (Chief Executive Officer)

Manfred Bächler
Senden (Chief Technology Officer)

Dr. Murray Cameron
Garching (Chief Operating Officer)

The members of the Board of Directors each have the power of sole representation.

The emoluments of the board members came to EUR 298,128.20 in the financial year 2004.

Supervisory Board

J. Michael Fischl,
Head of Internal Audit of Sparkasse
Ingolstadt, Abensberg (Chairman)

Ulrich Fröhner
Stuttgart (Deputy Chairman)

Dr. Patrick Schweisthal
Rohrbach

Ulrich Th. Hirsch
Schondorf

Prof. Dr. Klaus Höfle
Giengen

Dr. Aribert Peters
Rheinbreitbach

The attendance fees of the members of the Supervisory Board amounted to EUR 37,250.00 in the financial year 2004.

Sulzemoos, 31 March 2005
Phönix SonnenStrom Aktiengesellschaft
The Board of Directors



Dr. A. Hänel
(CEO and Chairman
of the Board of Directors)



M. Bächler
(Chief Technology Officer)



Dr. M. Cameron
(Chief Operating Officer)

Changes in Fixed Assets and Investments

for the financial year from 1 January 2004 to 31 December 2004

	Acquisition and manufacturing costs			
	As per 01/01/2004 EUR	Additions EUR	Disposals EUR	As per 31/12/2004 EUR
I. Intangible assets Franchises, industrial property rights and similar rights and rights on such rights and assets	771,999.58	13,780.00	0.00	785,779.58
II. Fixed assets Property, plant and equipment	741,927.62	223,380.38	105,438.08	859,869.92
III. Financial assets				
1. Shareholdings in affiliated companies	434,823.98	0.00	0.00	434,823.98
2. Loans to affiliated companies	48,000.00	0.00	0.00	48,000.00
3. Holdings	0.00	530,105.00	0.00	530,105.00
	482,823.98	530,105.00	0.00	1,012,928.98
Total fixed assets	1,996,751.18	767,265.38	105,438.08	2,658,578.48

	Accumulated depreciation and amortisation				Book value	
	As per 01/01/2004 EUR	Additions EUR	Disposals EUR	As per 31/12/2004 EUR	As per 31/12/2004 EUR	As per 31/12/2003 EUR
	209,891.58	113,847.22	0.00	323,738.80	462,040.78	562,108.00
	290,097.62	142,502.32	78,171.62	354,428.32	505,441.60	451,830.00
	38,823.98	0.00	0.00	38,823.98	396,000.00	396,000.00
	48,000.00	0.00	0.00	48,000.00	0.00	0.00
	0.00	0.00	0.00	0.00	530,105.00	0.00
	86,823.98	0.00	0.00	86,823.98	926,105.00	396,000.00
	586,813.18	256,349.54	78,171.62	764,991.10	1,893,587.38	1,409,938.00

Auditor's Report

We have audited the annual financial statements, together with the bookkeeping system, and the management report of Phönix SonnenStrom AG for the financial year from 1 January 2004 to 31 December 2004. The keeping of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We have conducted our audit of the annual financial statements in accordance with Section 317 of the German Commercial Code and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to accounting and the evidence supporting the disclosures in the books and the records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. On the whole, the management report provides a suitable understanding of the company's position and suitably presents the risks of future development

Munich, 31 March 2005

BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft

signed

Bartuschka
Certified Public Accountant

ppa. Jahn
Certified Public Accountant

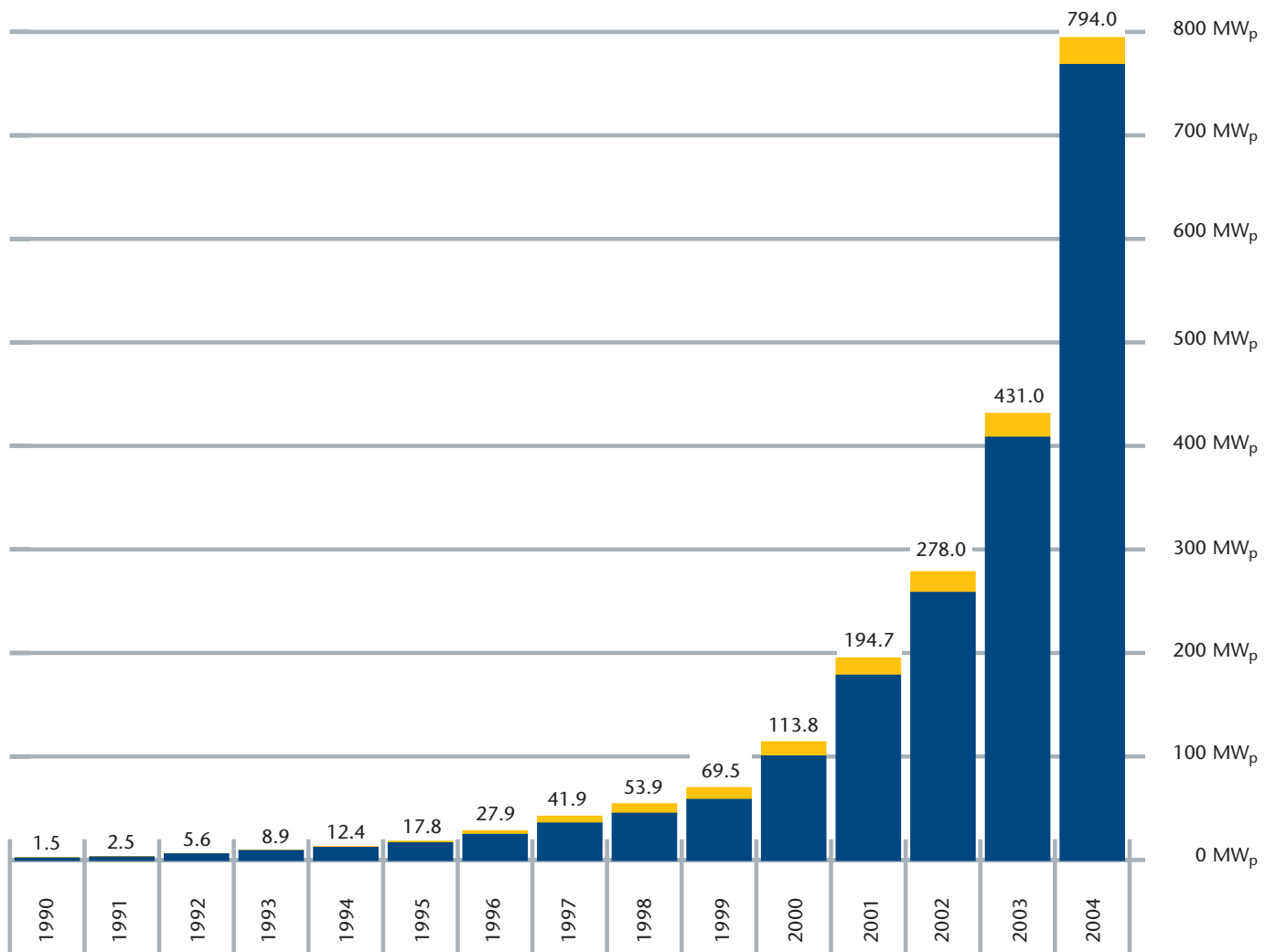
This is an English translation of the German language text and financial statements as approved by the company's German auditor. The German language original remains the definitive and legally binding version.

Trends in the German photovoltaic market

Source: IEA Task 1/BSi

Total installed photovoltaic output in Germany from 1990 to 2004


■ Stand-alone plants
 ■ Grid-connected plants





Developing ideas

With all due respect and enthusiasm for "our energy": the sensible planning of solar electricity systems is based on expertise and a great deal of practical know-how. This is the reason why Phönix Sonnen-Strom AG mediates between manufacturer and customer, identifies the options and the requirements to deliver the best solution. And creates scope for new ideas. Getting it right means making it right.





Entrepreneurial responsibility

In addition to safeguarding existing positions, Phönix SonnenStrom AG created additional ones in 2004. Since September 2004, the company has offered a training programme for the profession of office clerk, with the intention of binding skilled employees to the company long term.

- >> Realigning of the corporate strategy to take account of changes in the business environment
- >> Improving instruments used for planning, management and control
- >> Increase in the number of permanent employees from 41 to 46 by year-end
- >> Raising of per capita sales (full-time equivalent) by around 150 %

Report of the Supervisory Board

Report of the Supervisory Board to the Board of Directors and to the Annual General Meeting on its examination of the annual financial statements as at 31 December 2004, on its activities associated with the monitoring of the Board of Directors during the financial year, and on its statement on the audit report of the independent auditor pursuant to Section 171 para. 1 to 3, and Section 172 para. 1 of the German Stock Corporation Act.

GENERAL INFORMATION

In the year under review, the Supervisory Board met five times.

In accordance with the resolution passed by the extraordinary General Meeting on 20 June 2001, the Supervisory Board comprises six members: J. Michael Fischl (Chairman), Ulrich Fröhner (Deputy Chairman), Prof. Dr. Klaus Höfle, Ulrich Th. Hirsch, Dr. Aribert Peters and Dr. Patrick Schweisthal.

On 12 October 2004, the Chairman of the Supervisory Board commissioned BDO Deutsche Warentreuhand Aktiengesellschaft, certified public accountants in Munich, to audit the annual financial statements in accordance with Section 111 para. 2, sentence 3 of the German Stock Corporation Act. On 12 April 2005, the audit report of 31 March 2005 was submitted accordingly.

On 14 April 2005, the Chairman of the Supervisory Board took acceptance of the following:

- the annual financial statements and the proposal for the allocation of profit by the Board of Directors for the financial year 2004 and
- the report of the Board of Directors on the situation of the company.

REPORT ON THE EXAMINATION OF THE ANNUAL FINANCIAL STATEMENTS BY THE SUPERVISORY BOARD

In agreement with the Board of Directors responsible and in the context of its part in the preparation of the annual financial statements, the Supervisory Board is convinced that:

- all the components of financial accounting are systematically correct in as much as they form the basis for the annual financial statements;
- the methods for achieving a complete, accurate, timely and systematic storage, processing and recording of accounting data have been duly set in place;
- the system of documentation is well organised, and each individual business transaction can be traced through to its presentation in the annual financial statements and back;



- after having conducted sample checks of the underlying substantiation of assets and liabilities, they accord with the carrying amounts disclosed;
- in connection with the assessment of uncompleted transactions and information in the Notes to the Financial Statements, the contract register does not give the impression of being obscure or incomplete;
- the statutory rules governing recognition, disclosure and valuation have been complied with, and that an assessment enables a clear picture to be given through annual financial statements of the net worth, financial position and earnings situation of the company.

REPORT BY THE SUPERVISORY BOARD ON ITS ACTIVITIES ASSOCIATED WITH MONITORING THE BOARD OF DIRECTORS DURING THE COURSE OF THE FINANCIAL YEAR

In so far as the monitoring activities of the Supervisory Board do not take place within the context of the preparation and examination of the annual financial statements, the monitoring of the Board of Directors is primarily carried out by accepting reports prepared by the Board of Directors and discussing them, as well as the discharging of the Supervisory Board's duty to advise on an ongoing basis as part of its monitoring obligation pursuant to Section 111 para. 1 of the German Stock Corporation Act.

During the period covered by this report, the following were the main areas of monitoring and advisory activities:

- realignment of the corporate strategy to take account of changes in the business environment
- acceptance and discussion of reports made by the Board of Directors in accordance with Section 90 of the German Stock Corporation Act on liquidity and the financial position, the intended business policy and on other fundamental questions of corporate planning (in particular financial, capital expenditure and personnel planning), as well as on the setting in place of an internal control system (risk monitoring and early warning system pursuant to Section 91 of the German Stock Corporation Act).
- preparation and execution of the company's listing on the stock exchange
- human resource development of the company
- discussion on the progress made by the individual business segments and the subsidiaries
- concept for a marketing and sales strategy
- review and discussion of substantive contractual problems
- detailed discussions and the passing of resolutions on growth measures

STATEMENT ON THE REPORT OF THE INDEPENDENT AUDITORS

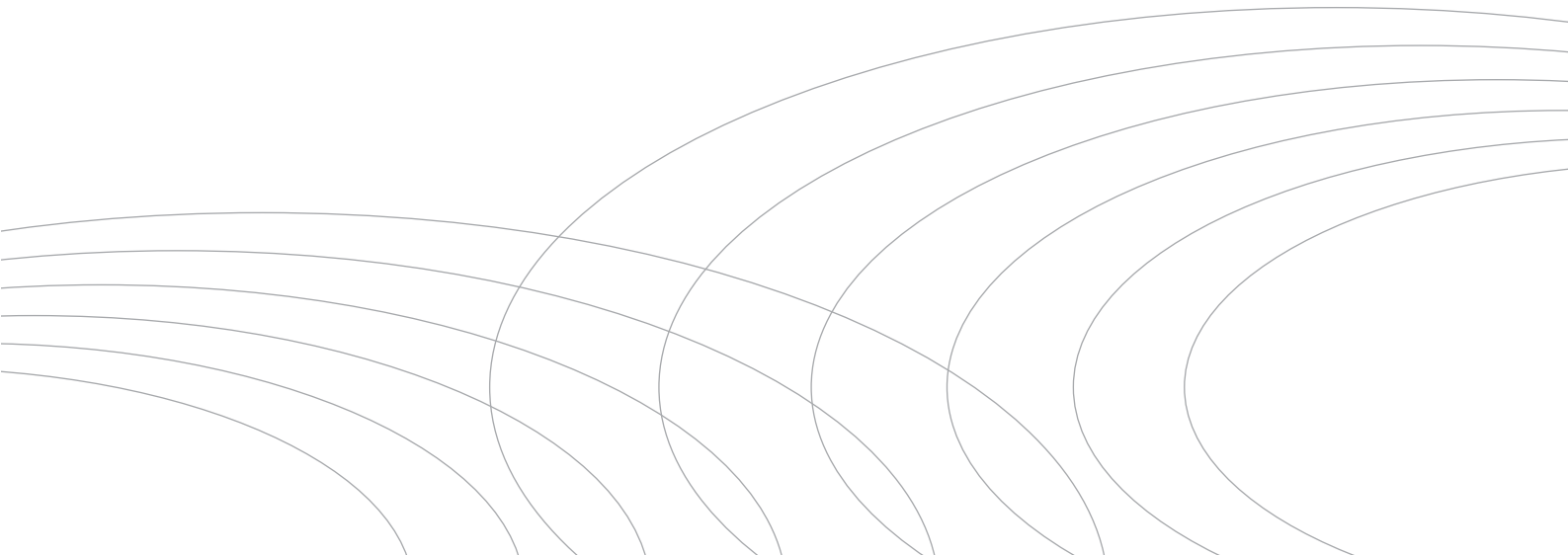
On 21 April 2005, following the prescribed formal consultation with the independent auditor, the Supervisory Board resolved the following statement on the report of the independent auditor pursuant to Section 171 para. 2 of the German Stock Corporation Act:

On the grounds of its own examination, the Supervisory Board accedes to the outcome of the audit by the independent auditor who has issued an unqualified audit certificate. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the annual financial statements as at 31 December 2004 were ratified by the Supervisory Board in its meeting on 21 April 2005, and are thereby adopted. Moreover, the Supervisory Board approves the proposal of the Board of Directors to submit the proposal in the form of a resolution to the Annual General Meeting to carry forward the balance sheet loss of EUR 1,722,216.01 to new account.

Sulzemoos, 21 April 2005




J. Michael Fischl
Chairman of the Supervisory Board

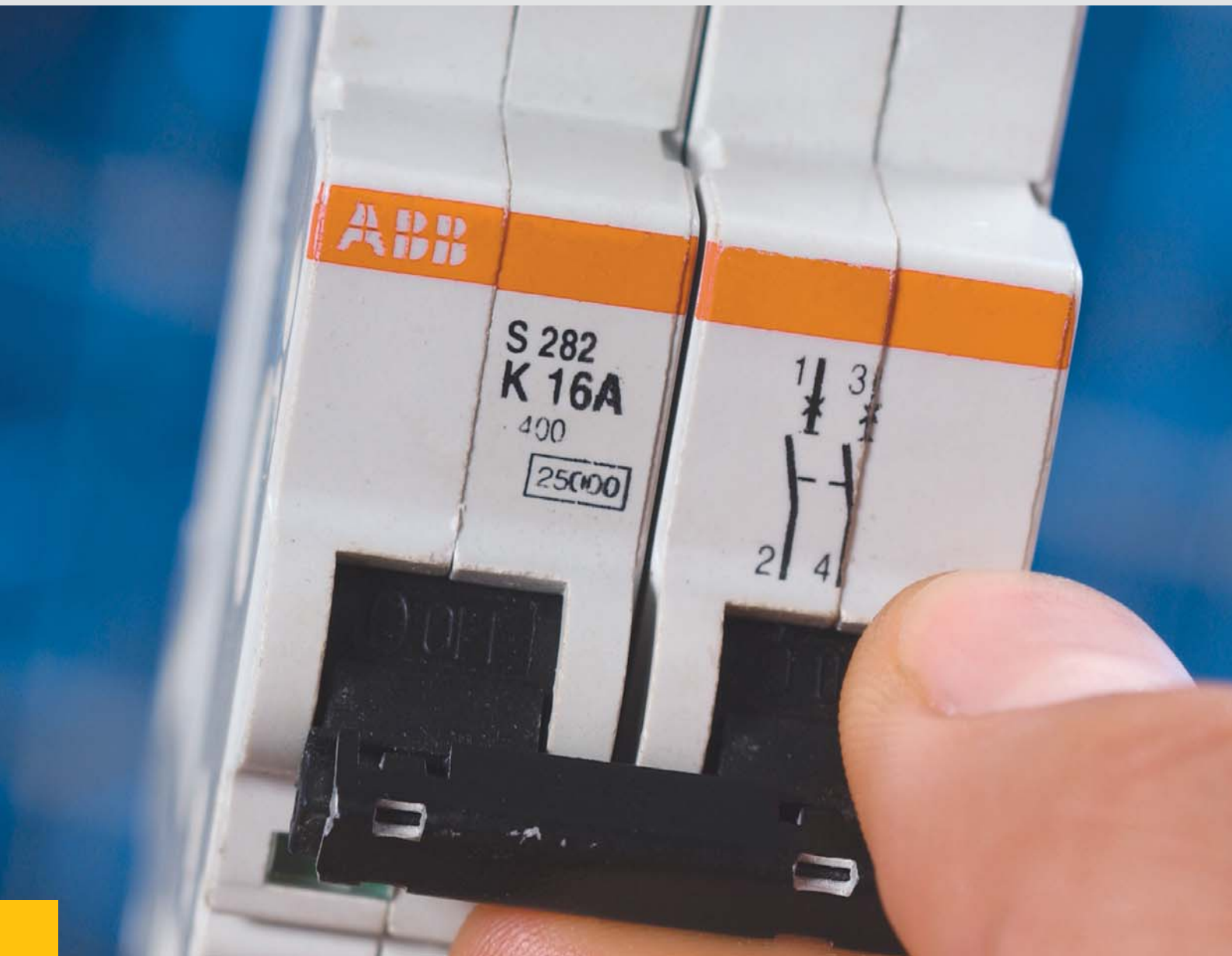




A big plus

Almost 10 percent of Germany's electricity consumption is covered by renewable energy, a trend which is on the rise. Solar energy also plays its part. No wonder: there are no convincing contras. Solar electricity is a clean technology which can deliver benefit anytime anywhere. And it is so easy that using it can be recommended without any reservations whatsoever. Because our energy is simply there.

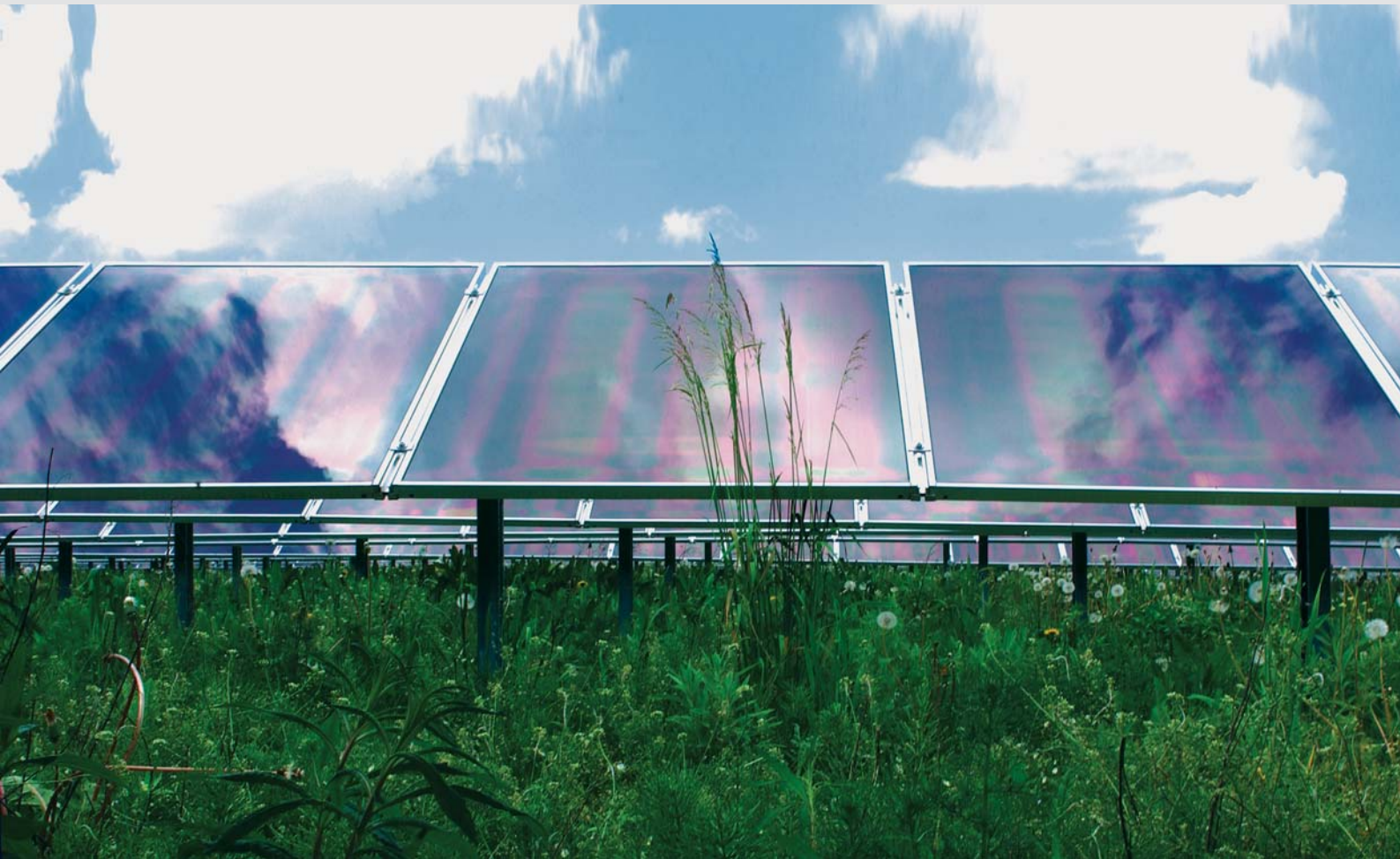




Outstanding achievement

In August 2004, the Solarpark Buttenwiesen, a project planned by and implemented in less than two months by Phönix SonnenStrom AG, went online. This project is a milestone for Phönix SonnenStrom AG in its implementation of the forward-looking thin film technology: the completion of the world's largest green-field photovoltaic plant using thin film modules .

- >> Start of operation of the world's largest green-field photovoltaic plant with thin film modules
- >> 1 MW plant with 10,050 solar electricity modules
- >> Short construction time through using an optimised assembly system
- >> Environmentally compatible free-standing installation without surface sealing





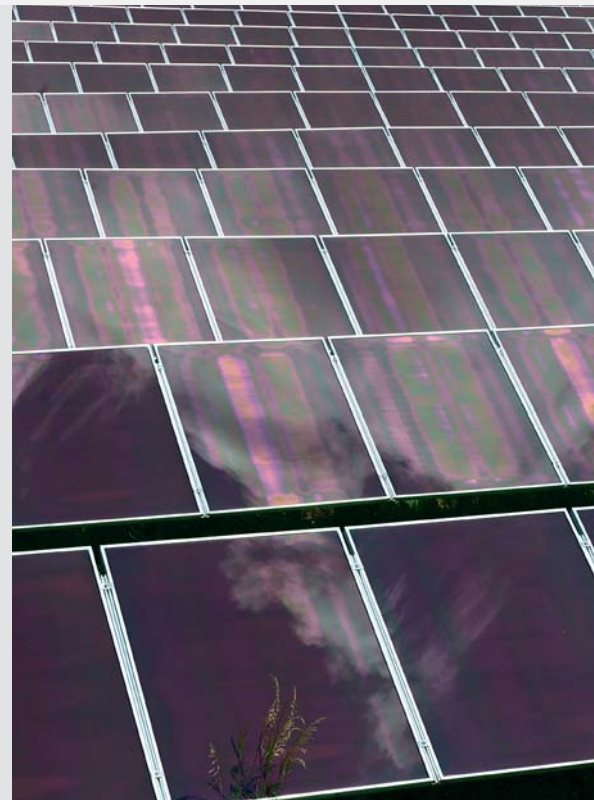
As far as the eye can see

With 10,050 solar electricity modules, Phönix SonnenStrom AG has set another unmistakable sign of renewable energy. 4.5 hectares of thin film modules are indeed an unforgettable sight.



In harmony with nature

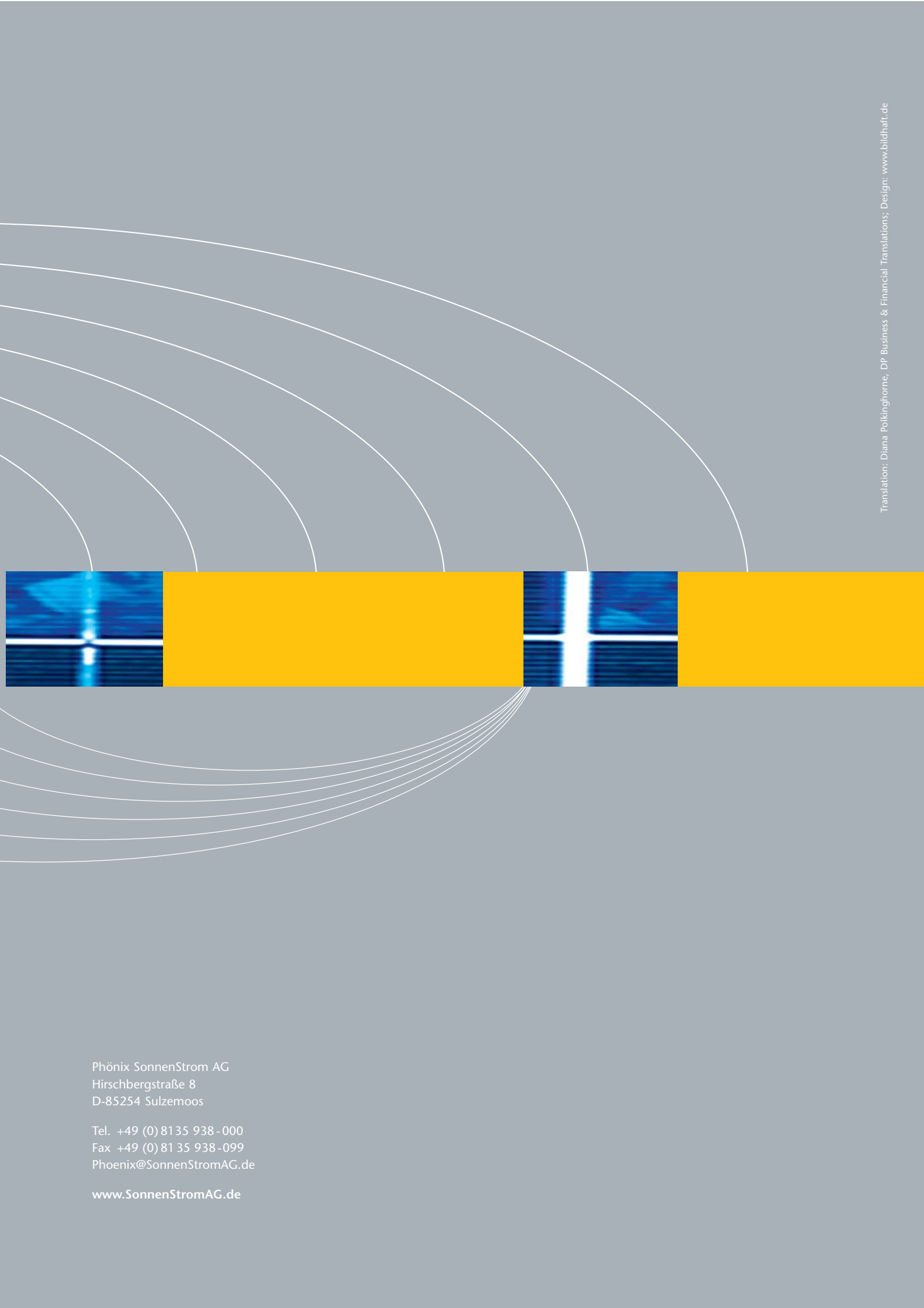
The Buttenwiesen solar electricity plant is much more than the considerable contribution it makes to the generating of environmentally compatible energy. We are proud of our assembly method which allows us to do away with using concrete. This method even enables us to design the plant to fit into the surrounding landscape, which helps keep interference in nature to a minimum and conserve the natural environment with its plants and small animals.





the sun and only

Phönix SonnenStrom AG



Phönix SonnenStrom AG
Hirschbergstraße 8
D-85254 Sulzemoos

Tel. +49 (0) 8135 938-000
Fax +49 (0) 81 35 938-099
Phoenix@SonnenStromAG.de

www.SonnenStromAG.de