PHÖNIX
SonnenStrom AG

Annual Report 2005

Phönix SonnenStrom AG at a glance

Consolidated Financial Statements pursuant to IFRS

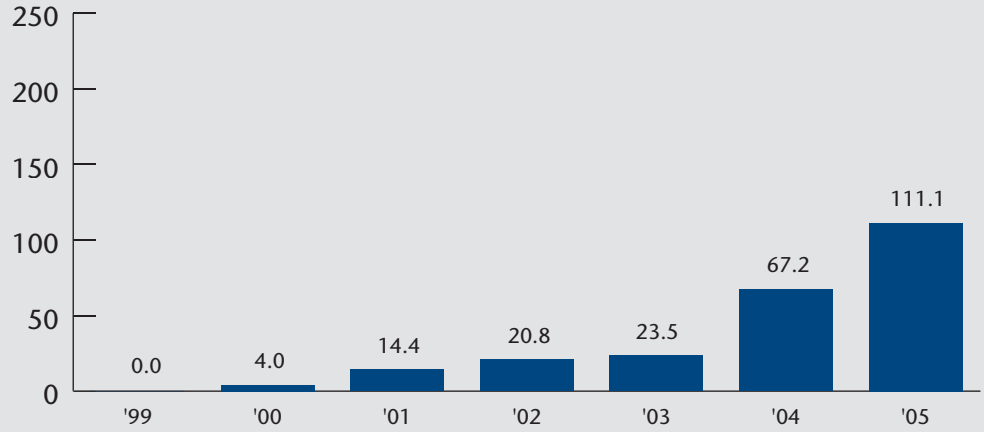
Reporting date		31/12/2005	31/12/2004
Balance sheet			
Total assets	T €	36,331	20,197
Equity	T €	23,244	12,013
Equity ratio	%	64	59
Return on equity	%	21	14
Results			
Sales	T €	111,116	67,348
Total sales	T €	112,282	67,529
EBIT	T €	7,678	2,474
EBIT margin	%	6.9	3.7
Net profit for the year	T €	4,950	1,702
Earnings per share*	€	0.92	0.34
Employees			
Employees**	number	71	58
Sales per capita***	T €	1,778	1,556
Phönix SonnenAktie®			
No-par-value bearer shares		5,525,000	5,025,000
Computed share in share capital	€	1.00	1.00
Closing price at year-end	€	15.88	7.15
Market capitalisation	T €	87,737	35,929

* undiluted and diluted earnings
** average employee number, including part-time and temporary staff
*** full-time equivalent

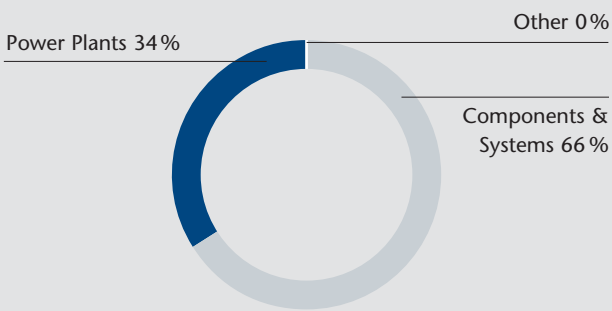
Phönix SonnenStrom AG at a glance

Sales trend 1999 - 2005

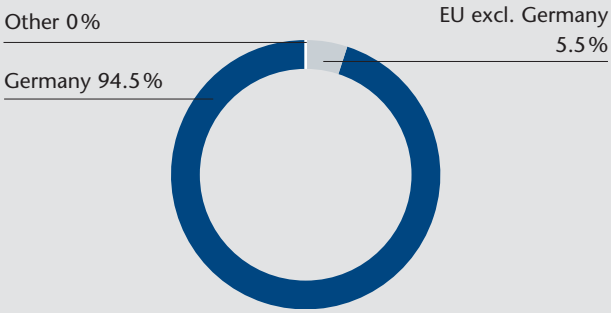
In EUR million per year



Sales by business segment in 2005



Sales by geographical market in 2005



Share price performance in 2005

of the PHÖNIX SonnenAktie® (share) in EUR
on the Deutsche Börse, Frankfurt am Main

Key data

of the PHÖNIX SonnenAktie®

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
Share capital	EUR 5,525,000
Stock exchange segment	OTC
Stock exchanges	Munich, Frankfurt am Main, Stuttgart, Berlin / Bremen
Sector	Renewable energies

Financial calendar 2006

27/04/2006	Figures as per 31/03/2006
08/05/2006	Annual Report 2005 available as a .pdf file on the homepage
07/07/2006	Regular Annual General Meeting in Fürstenfeldbruck
Week 34	Figures as per 30/06/2006
Week 47	Figures as per 30/09/2006

Information without guarantee; subject to amendment

Contact

Phönix SonnenStrom AG
Hirschbergstraße 8
D-85254 Sulzemoos

Investor Relations
Anka Leiner
Tel. +49 (0) 8135 938 - 315
Fax +49 (0) 81 35 938 - 399
E-Mail: Aktie@SonnenStromAG.de

www.SonnenStromAG.de

2005
Annual Report

2005

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

Dear Shareholders,

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

The year 2005 was a special year. Who would ever have thought that the financial community would give photovoltaics so much attention? And yet it was the solar companies that were among the most successful IPOs in the past year. Even a change of government has not affected this view. In fact, the German government's plan to further promote renewable energies is rather more of a clear signal: Solar electricity has meanwhile taken firm root in the awareness of the vast majority of the public. This insight, coupled with newly developing photovoltaic markets both within and outside Europe, not least owing to the German law on renewable energies, has helped immensely to build confidence in the solar industry.

Even if we were somewhat quicker than last year's trend in our move to have the company listed on the stock exchange as early as November 2004, the year 2005 was special for us as well. We succeeded in taking the next step after an IPO, namely in bringing Phönix SonnenStrom AG more closely to the attention of the public. This is reflected in our much stronger coverage by the media in general and also by the response we have elicited in the financial community in particular. In the meantime, Phönix SonnenStrom AG has been the subject of company reports prepared by a number of international banks. And perhaps some of you, as our valued shareholders, like the Board of Directors, felt pride in our company when you saw the headline in the Handelsblatt which read "Phönix, the OTC share with a difference". Without being wordy, the financial market assessed the success of Phönix SonnenStrom AG: The share price, which has more than doubled since 2005, and the surpassing of the magic market capitalisation threshold of EUR 100 million speak for themselves.

The business figures for last year also provide proof of the performance capabilities of Phönix SonnenStrom AG. With sales of over EUR 111 million and an operating result of around EUR 7.7 million, the company way outperformed analyst expectations. The start-up losses of the years before have been made good and our profitability, with a return on equity of 21 percent, has reached a benchmark. This was made possible by systematic cost management, a lean organisation structure and enhanced customer retention. Measures for the latter, such as optimising our sales force and clearly segmenting our customer structure in Germany and abroad, are not only evidence of our striving to set in place efficient operating processes: They also represent steps on the way to growth through internationalising our business.

Important milestones in our international expansion have already been achieved in 2005. As against 2004, Phönix SonnenStrom AG doubled its sales outside Germany to EUR 6 million. Moreover, the participation in RED 2002 in Rome in January 2006 has paved the way to lifting the share of international business to more than 10 percent.

To complement its local presence in increasingly attractive international markets, Phönix SonnenStrom AG has also developed access to international investors in 2005. By preparing its consolidated financial statements in accordance with

the International Financial Reporting Standards, the company now fulfils the requirements of international capital markets.

Another sign of our international strategic alignment is that we meanwhile have employees from eleven countries who are making an outstanding contribution to the business of Phönix SonnenStrom AG. How high the level of motivation and performance is can only be partly measured by our figures. Behind a sales growth of 65 percent, with workforce numbers remaining virtually the same and the highest per capita sales in the industry, there is good cooperation, flat hierarchies and, above all, an unabated enthusiasm for solar electricity. For this the Board of Directors would like to express its warm thanks and appreciation to all employees. We intend to nurture this enthusiasm and to pass it on to our new employees in Germany and abroad who are essential to growth.

The exceptional pace of development of the solar market is particularly reflected in the fact that, since 2004, demand for photovoltaic systems has been considerably higher than the supply of solar modules. The special challenge in 2005, and in the years ahead, will therefore be to procure sufficient volumes of products, especially of modules. We are meeting this challenge by consistently expanding our strategic procurement activities which are meanwhile no longer restricted to Europe but have been extended to cover the USA, Japan and as far afield as China.

At an early stage, we started to investigate products at the forefront of technology. This turned out to be the right decision in 2005 as well. A topical example is thin film technology: A few years back Phönix SonnenStrom AG made a substantial contribution in introducing this type of solar module, the production of which is resource conserving, into the European market. And you will most certainly recall that we presented the world's largest green field plant in last year's Annual Report: the Buttenwiesen Solar Park which we constructed using thin film modules. Today, especially given the current shortage of solar silicon, but also owing to the advantages proven in practical application, there is a strong trend towards thin film emerging throughout the entire sector. In this environment, we will benefit from our experience as a leading user of thin film modules. Thanks to our having concluded framework agreements with First Solar (USA) and the supply of thin film modules by Mitsubishi Heavy Industries, we have already been able to reinforce our market position. As an innovative company open to unusual solutions we are in a position to respond quickly to new developments and benefit from new, intelligent products.

Proof of our innovative strength and creativity is also reflected in the positive trend of another promising segment of Phönix SonnenStrom AG, namely in our power plant construction. By the end of the year, we had completed the solar power plants of Miegersbach, Reussenköge and Buchheim, the latter, by the way, using the thin film modules of First Solar. Particularly outstanding is, however, the Miegersbach Solar Park, the construction of which was announced in our last Annual Report: As one of the world's largest ground-mounted photovoltaic plants, the

completion of construction by the scheduled date was a real logistics feat and special evidence of our dynamic growth. We have thus dedicated a brief description to this project in our Annual Report.

That our growth was not run of the mill is shown by the awards we won during the past year. In June, the title of "Bayerns Best 50" was conferred on Phönix SonnenStrom AG – out of more than 2,000 companies – as a company with above-average sales and job growth. In November, we were honoured to be ranked among "Europe's 500" as a European high-growth company.

We are confident that we will see our company grow in the years ahead as well. Bottlenecks in the supply of energy from conventional sources, coupled with the upbeat trend in the photovoltaic sector, provide a sound starting point. Phönix SonnenStrom AG will, however, not only rely on environmental conditions being favourable. With our innovative strength, performance capabilities and motivation demonstrated in 2005, it is our goal to exceed the EUR 200 million sales hurdle as early as the year 2007.

The design and, above all the photographs, in this year's Annual Report show that we have not lost our verve in building up and expanding the photovoltaic business. It is also our intention to give you an idea of our dynamic growth – and not only through figures and charts. After all, we have achieved so much more than just an outstanding financial result in seeing Phönix SonnenStrom AG continue to climb the ladder of success in 2005. We have come a little closer to our vision of ensuring a better quality of life in the world through renewable energies. We hope that we will be able to give you, as our esteemed shareholders, a good feeling as co-partners in Phönix SonnenStrom AG. Our joint performance is in the long run the result of your commitment and trust. We would like to thank you for this.

Yours truly,

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

M. Bächler
(Chief Technology Officer)

Dr. M. Cameron
(Chief Operating Officer)

Uptrend

Growing demand and dynamic development: More and more people are benefiting from solar electricity

Why aren't you wearing a tie?

An interview with the Board of Directors of Phönix SonnenStrom AG

We would like to give you a more personal introduction to Phönix SonnenStrom: to the people behind the figures, the vision behind the technology and the history behind what you see. This is the reason why this interview with Dr. Andreas Hänel, Manfred Bächler and Dr. Murray Cameron will touch not only on the trends in photovoltaics, the opportunities and prospects for the future, but also on a 470-year old building and an age-long tradition of the Irish school system.

Dr. Hänel, as CEO of a company which is only six years old, you are sitting in a building which is 470 years old. How do the two go together?

Andreas Hänel: Very well in my opinion! It is exciting to see the contrast between the old and the new, between innovation and tradition. Quite apart from this, I am a big fan of old buildings and am delighted that we have the possibility in Sulzemoos of using buildings located on old castle grounds, of building on to them and of renovating them, while conserving the old structure and using ecologically sound building materials. By the way, our branch offices in Ulm and Bad Segeberg are also located in protected buildings.

You founded Phönix SonnenStrom AG in 1999 in the context of a consumer initiative. Six years later it has become one of the most successful companies in the solar market. What will be the next steps in its development?

Andreas Hänel: Well, the first thing we need to do is to make photovoltaics independent of state-subsidised programmes. This is very important, mainly because it means independence from political change and thus more security. Companies which succeed in doing this in the global market have a much better position in the competitive arena, as they are able to convince from a commercial standpoint as well. The secret lies in keeping the system costs of solar electricity systems as low as possible. This is what we are working on intensively right now.

How is the rapid pace of growth affecting the company?

Andreas Hänel: Owing to the steadily growing number of employees there are, of course, often not enough cups to go around. I recently took a guest on a tour of our offices and discovered that the number of tea-making facilities in Sulzemoos has meanwhile risen to five!

Murray Cameron: Our growth means that we now have employees from eleven different countries. We have not only got a lot bigger but also a lot more international within the company.

Mr. Bächler, in 2005 you built one of the largest ground-based plants in the world. Will we be seeing more of the same in the future?

Manfred Bächler: Yes, of that I am convinced. To deliver maximum yield and operate at maximum efficiency, most large-scale photovoltaic systems are, however, firstly not going to be built in Germany, secondly not on buildings but on the ground, and thirdly crystalline modules will not be used. And if we look at the growing need for energy in the world, all this will happen well before 2015. At home in Germany, with the cost degression of 6.5 percent a year, as stipulated in the German law on renewable energies, the construction of ground-based systems is what can be called tough training.

You opted for thin film technology at a very early stage, back in 2003. Why?

Manfred Bächler: This probably goes back to the time when I started in photovoltaics, which was in 1990. Even then the word about thin film was being spread. The results which the plants delivered were, however, mostly disappointing. Thin film technology is still suffering from the effects of this today. But about four or five years ago things changed:

The developers and manufacturers of thin film modules had done their homework. And especially the entry of large conglomerates, such as Mitsubishi Heavy Industries, or newcomers to the market under professional management and with convincing technology, such as First Solar, clearly show that, since those pioneering days, thin film technology has developed into a technology with a very promising future. For thin film modules are not only an answer to the current shortage of silicon. Reducing costs, which will be necessary if we are to build economically viable solar electricity plants before the year 2015, will probably not be achieved with crystalline modules.

What are the advantages of thin film technology?

Manfred Bächler: There are many. Firstly, the comparatively cheap production costs based on the price in euros per watt of peak power output and the cost-cutting potential in manufacturing. This will, at least in the medium term, also lower the purchase price for us.

What we are working on at Phönix SonnenStrom AG, however, is cutting the costs of the whole system, or in managerial terms the "balance of system costs". We believe that here the potential of thin film modules as compared with crystalline modules is much greater. Cutting costs both at the module level and at the system level will result in very favourable balance of system costs.

Another advantage of thin film modules is that, especially in southern European countries with high insolation and high module temperatures, additional yield of around three to five percent can be generated as compared with crystalline systems. The modules yield more, promise to deliver a better balance of system costs and, in future, a much higher increase in efficiency as against crystalline modules as well.

Dr. Cameron, as president of EPIA (European Photovoltaic Industry Association) you have in-depth knowledge of the international solar market. How does the association view the shortage of solar silicon?

Murray Cameron: As we British say, every cloud has a silver lining. Of course, we are all currently suffering from lack of silicon available for crystalline technology. But this is due to the fact that we have experienced enormous growth in recent years and have created thousands of jobs. As members of the association we are naturally very proud of this.

The manufacturers of thin film modules now see their chance in the lack of silicon: new ideas and production methods are coming to the fore. New production locations are being built not only in

Germany and throughout Europe but also in the USA, Japan and China. The fact that a huge amount of investment is being made in thin film is an indication of, as Manfred Bächler has already mentioned, the increasingly

important role that thin film technology is set to play in the future. At the moment, however, our situation is that modules are scarce and prices high. This will remain so for a while.

What exactly is Phönix's supply situation?

Murray Cameron: We are well positioned. We have been able to secure supply quotas of modules at an early stage by way of framework agreements. Of course, the very good contacts which we have had for a long time and foster with a number of manufacturers stood us in good stead. Procurement is not simply purchasing for us. We offer our manufacturers a cooperation, which means that we not only want to take but also to give: The manufacturers are often remote from the market and do not know the trends in the market or what customers and plant operators want. As they do not build systems themselves they do not know how to optimise large-scale plants from the cost aspect, or how to raise efficiency. This is our input into a long-term cooperation with the manufacturers. We have been in business for years with most of our suppliers and we want it to stay this way.

Phönix SonnenStrom AG currently operates in the market for grid-connected systems. Are off-grid systems which operate autonomously less attractive?

Murray Cameron: On the contrary. Our association, EPIA, estimates that the market for off-grid systems will grow rapidly in the years ahead, mainly in the countries outside Europe, North America and Japan. It is our intention to be in this market at an early stage.

Is this the reason why colleagues who come looking for you in your office in Sulzemoos are often unlucky?

Murray Cameron: Yes. We are growing and, as an international company, we want to be present in all the important markets and also in markets which, in our opinion, have big potential. Currently we are building up our presence in Southern Europe in particular. We have already found a very good cooperation partner in Italy.

But we are looking to become active outside Europe as well. As regards the aforementioned off-grid systems, our presence in the developing and emerging markets is especially important. In El Salvador we built Central America's largest grid-connected PV plant. This gave us a lot of publicity, and many firms already know us there. This is an excellent starting point for more cooperations.

You are the only Phönix Board member who wears a tie. What's it like being among colleagues who are "tie shy"?

Murray Cameron: I am Irish and as there was a school uniform in Ireland I have been used to wearing a tie since my school days. I feel very comfortable in a tie. It has nothing to do with being a board member or business. My attempts to persuade my colleagues to wear a tie have,

however, been fruitless so far. But as long as we all feel comfortable I can overlook this. And our international cooperation seems to work with and without a tie.

Thank you for the interview.

Thin film technology in photovoltaics

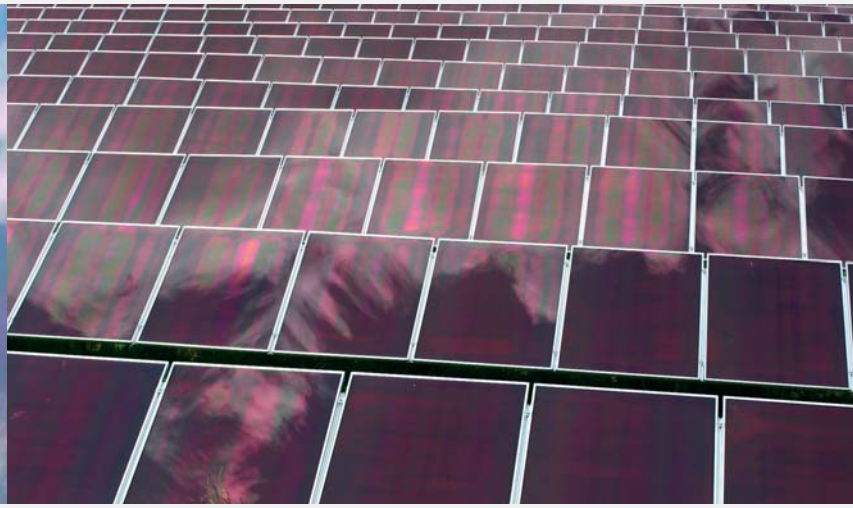
Thin film technology has been the talk of the town for some time now. Technically at the level of serial production and a viable economical alternative, this technology is considered to be the opportunity of dealing with the two greatest challenges of the photovoltaic market: huge price pressure and volume growth. It offers a solution to the shortage of solar silicon through the manufacturing of a sufficient number of solar modules. Thanks to thin film technology, high-performance modules are not only better value for money but can also be manufactured in large volumes to cater for the growing need of the market.

The reason for this lies in the material efficiency of thin film technology: In the production of thin film modules – other than with crystalline modules which have dominated to date – solid, and thus expensive silicon disks are not used. Instead the solar cells necessary for the absorption of light are applied as a very thin film, as the name suggests, (only 1/50 - 1/100 the thickness of crystalline solar cells) in a fully automated process. This makes the manufacturing of modules much more cost effective.

Reduced manufacturing costs, lower material input and fully automated production are, however, not the only benefits: Measurements carried out in the same location showed that thin film modules also have an advantage in terms of yield when compared with crystalline modules, in particular as regards output loss which is significantly lower when temperatures are high. Thus, the use of thin film modules in green-field systems delivers clear advantages as well, despite the still lower degree of efficiency.

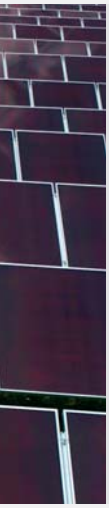
Until recently thin film modules were outshone by crystalline modules – but now the whole solar sector has recognised their potential: New variations in the technology are being tested, processes improved and production facilities erected. And the prospects are bright: Whereas growth in crystalline technology has been estimated at 22 percent up until the year 2010, the growth rate for thin film technology has been set at 65 percent. The market potential of thin film technology is thus far from being exhausted.

A long while before the advent of the currently perceived silicon shortage, Phönix SonnenStrom AG had begun to investigate thin film modules. In 2003, we introduced a new product, the a-Si modules by Mitsubishi Heavy Industries (MHI), into the German solar market. Accordingly, with sales of more than 1.5 MWp of MHI modules in the first year, we had already become MHI's biggest customer in Germany. In 2005, we concluded a framework agreement with another manufacturer of thin film modules, the American company First Solar. This early and future-oriented commitment has resulted in the share of thin film modules used by



Phönix SonnenStrom AG having already risen to around 20 percent.

In addition, Phönix SonnenStrom AG is right at the forefront in the German and European markets in the construction of large-scale plants with thin film modules. The company has thus created a considerable competitive advantage for itself through its significant optimisation in the area of systems technology and in its competence in building solar power plants. With our knowledge and our experience in the field of thin film modules we will be expanding our excellent market position in the coming years.



Success generates success

Phönix SonnenStrom AG looks back on an exceptionally successful year, not only in terms of its company figures but also as regards its achievements in striving after its ideals. Our efforts to further the company's development and generate growth, to enact our entrepreneurial responsibility and achieve sustainability were rewarded by two prizes which were conferred on us. We are delighted about this. It shows that our success has not gone unnoticed.

"Bayerns Best 50"
Of the 2,000 candidate companies, Phönix SonnenStrom AG qualified for the "Bayerns Best 50" prize. The assessment was based not only on a minimum size but primarily on the criteria of growth, entrepreneurship and sustainability. This award, which CEO Dr. Andreas Hänel received from Dr. Otto Wiesheu, the then Bavarian Minister of Economic Affairs, on 15 June, puts Phönix SonnenStrom AG among the 50 highest growth companies in Bavaria.

"Europe's 500"
Phönix SonnenStrom AG was able to hold its own in the international arena as well in 2005. The company was given the "Europe's 500" award in Barcelona on 19 November. This prize is conferred once a year on 500 companies in Europe with the strongest growth. The winners of this prize are selected by the "Europe's 500 Entrepreneurs for Growth" association, an initiative of Microsoft and KPMG, from among companies from 25 European countries.

Miegersbach Solar Park: one of the largest of its kind

The Miegersbach Solar Park is Phönix SonnenStrom AG's largest project so far. The company completed the plant on time for acceptance by the owners. In August 2005, only three months after the start of construction, part of the plant, built in the district of Dachau in Upper Bavaria, had already become operational. The whole solar park was grid connected by December 2005. More than 32,000 solar modules now deliver clean energy, and their output reduces the emission of environmentally damaging CO_2 by up to 5,200 tons a year. Their annual energy yield of over 5,000,000 kilowatt hours provides around 1,700 households with electricity.

The Miegersbach Solar Park is, however, not only an advantage in that it improves the quality of life, it also gives farmers, who have leased a total of 17 hectares of land for 21 years, a long-term, steady source of additional income. And given the payment rates of 43.42 cents per kilowatt hour, the solar park is attractive to investors as well.

The initiator of the power plant was KG Allgemeine Leasing GmbH & Co (KGAL), a company based in Grünwald near Munich. The company's professional fund managers of its subsidiary ALCAS GmbH established and managed a closed fund for the solar park. Phönix SonnenStrom AG plans to cooperate closely with KGAL on new major projects.

Further progress was made in the form of Phönix SonnenStrom AG's innovative assembly system which was developed in house. Its standardised and harmonised components are cost-effective to purchase and help to considerably shorten the construction time needed for a plant of this size. Thanks to a special anchoring of the mounting components deep in the ground, we were able to do away with the resource-intensive use of concrete. As, therefore, the ground is not sealed, a meadow of flowers grows and blossoms between the modules. The meadow can be mown, if necessary, and gives home to insects and small animals. This is how solar electricity can help to improve intensively used farmland from an ecological standpoint.

These positive effects have made the Miegersbach Solar Park a remarkable success. It is also a milestone in the large-scale plant construction activities of Phönix SonnenStrom AG in another respect: With a peak power output of 5.3 megawatts, we have installed and connected one of the world's largest green-field systems to the grid.

Miegersbach Solar Park at a glance

- >> Location: Miegersbach near Odelzhausen (district of Dachau)
- >> Operator: Solarenergiefonds Miegersbach (Miegersbach Solar Energy Fund), Ladit Mobiliengesellschaft mbH & Co. KG
- >> Total nominal output: 5,300 kilowatt (kWp)
- >> Annual energy yield: ca 5,000,000 kilowatt hours (kWh) (corresponds to the consumption of ca 1,700 households)
- >> CO_2 reduction: up to 5,200 tons a year
- >> Number of modules: 32,028 modules
- >> Start of operations: 28 December 2005 (1st construction phase in June 2005)

Growth potential

Free availability and an inexhaustible source: there is solar electricity everywhere

Growth potential

With its price rising from EUR 7.67 to EUR 15.88, the first year of trading was extremely successful for PHÖNIX SonnenAktie® (share). Owing to capital market communication activities having been stepped up, the share is now monitored by a number of international banks and has attracted the attention of institutional investors.

>> 107 % increase in the value of the PHÖNIX SonnenAktie® over the course of the year

>> By year-end, the market capitalisation of Phönix SonnenStrom AG came to EUR 87.737 million

>> Share capital increase of EUR 500,000

>> Successful stepping up of capital market communication activities

>> Admission of Phönix SonnenStrom AG to the M:access quality segment of the Munich Stock Exchange

>> Seamless trading of the PHÖNIX SonnenAktie® on the electronic trading platform XETRA®

PHÖNIX SonnenAktie® – the share of Phönix SonnenStrom AG

Stock market environment

The mood on German stock markets has improved notably: In 2005 companies again began to draw increasingly on the capital market for the procurement of capital, and equity investors became more willing to invest. Solar equities were among the big winners. They enjoyed brisk demand by investors and contributed to the generally upbeat sentiment through six IPOs and sharply rising share prices.

The upswing on the stock exchange is clearly reflected by the trend of the DAX, Germany's leading index. In September, it broke through the 5,000 mark and closed the stock exchange year at 5,408, which is an increase of 27 percent in the course of the year. Germany's technology index, the TecDAX was somewhat weaker, but nonetheless growth was positive and steady with an annual increase of nearly 15 percent.

The shares of ecologically-oriented companies performed even better than the level in the generally positive environment. The NAI (Nature Stock Index) rose 14.5 percent to 3,524 points. The international PPVX, the Photon Photovoltaic Stock Index, generated an increase of as much as 148 percent, climbing to 2,332 points.

Industry environment

At the start of 2005, another five companies from the photovoltaic sector were listed on German stock exchanges, alongside Phönix SonnenStrom AG. In the course of the year, this number doubled to twelve. Of the six new companies on the stock exchange, three had their shares listed on the unregulated market and three in Prime Standard. The three Prime Standard companies were admitted to the TecDAX where there had been, up until that point, only one company from the solar sector.

Share performance

The PHÖNIX SonnenAktie® had a positive first year of OTC trading in 2005. With a price increase from EUR 7.67 at the start of the year to EUR 15.88 by the end of the year 2005 (both closing prices of Frankfurt floor trading), the share advanced by 107 percent. Market capitalisation (the number of shares multiplied by the share price) stood at EUR 87.737 million at year-end, and the average daily trading volume was 54,034 shares.

Capital increase

With the approval of the Supervisory Board, the Board of Directors resolved a capital increase against cash on 21 April 2005. The share capital rose from a former EUR 5,025,000 to EUR 5,525,000, up by EUR 500,000. It is divided into the same number of no-par-value shares. The capital increase used part of the approved capital resolved by the Annual General Meeting on 3 August 2002. The pre-emptive rights of existing shareholders were excluded in order to be able to react flexibly to an offer submitted at short notice by two German fund companies.

Both funds subscribed to half of the capital increase each and purchased a stake in Phönix SonnenStrom AG of 4.52 percent respectively. The issuing price of the new shares came to EUR 12.62 per share. The price was calculated from the average price recorded on the Deutsche Börse in Frankfurt am Main during the five days preceding the Board resolution, minus a discount of 5 percent. The company received funds of EUR 6.31 million. This capital was used for securing module supplies in 2005 and 2006, as well as for the expansion of international business in particular.

Change of segment

On 1 July 2005, the Munich Stock Exchange launched its M:access quality segment. The 14 companies currently listed in this segment fulfil reporting obligations which are much more extensive than those in the unregulated market. Phönix SonnenStrom AG changed to M:access as soon as the segment went live, with the aim of offering its shareholders even greater transparency through the fulfilment of the requirements (see the chart below). In the first twelve months, all M:access companies are accompanied by underwriting experts. BAADER Wertpapierhandelsbank fulfils this role for Phönix SonnenStrom AG. The bank also prepared the company's listing on the unregulated market.

M:access
Perspektiven für den Mittelstand!

M:ACCESS REQUIREMENTS

Enhanced transparency and security ensured by the M:access quality segment of the Munich stock exchange

>> Reports in the course of the year posted on the web site
>> Publication and dissemination of important company information without delay
>> Company calendar posted on the web site
>> Publication of core statements and key data from the audited financial statements
>> Participation in at least one analyst and investor conference a year

Annual General Meeting

Of the share capital with voting rights, 23.41 percent was represented at the regular Annual General Meeting held on 29 July 2005. There were no countermotions. The resolutions of the Annual General Meeting were approved with a majority between 96.97 percent and 100 percent. The outcome and all important information on the Annual General Meeting can be accessed on the web site of Phönix SonnenStrom AG (www.SonnenStromAG.de). The next regular Annual General Meeting will take place on 7 July 2006 in Fürstenfeldbruck's Event Forum.

The company makes proxies available for shareholders who cannot personally take part in the Annual General Meeting. In addition, the information on the Annual General Meeting which is distributed to each shareholder enables the shareholder to give detailed instructions.

With the listing of the company on the unregulated market in November 2004, the class of shares of the PHÖNIX SonnenAktie® was switched from registered shares to bearer shares. Part of the shares are still held in a trustee deposit, as not all shareholders have given us their custody account details. These shareholders were not able to exercise their shareholder rights, for instance their voting rights, at the Annual General Meeting. We take this opportunity of requesting these shareholders to give us their custody account details so that the shares can be transferred.

Designated Sponsor

Since 1 December 2005, HSBC Trinkaus & Burkhardt have acted as designated sponsor for the seamless trading of the PHÖNIX SonnenAktie® in the electronic trading system XETRA®. XETRA® is the fully electronic trading platform at Deutsche Börse, Frankfurt am Main. The system features an open order book and low transaction costs and, above all, addresses both international and institutional investors.

Corporate Governance

Responsible and transparent action has always been an integral part of the corporate culture of Phönix SonnenStrom AG. In recent years, the company has developed into a systems integrator in photovoltaics with international operations. In order to comply with the ensuing greater responsibility, company management and control is increasingly oriented towards fulfilling the requirements of the German Corporate Governance Code (GCGC). In the opinion of the Board of Directors and the Supervisory Board, the GCGC lays down standards in a balanced and practically-oriented way which are internationally acknowledged as good and responsible corporate governance.

We will be using the current year to implement further recommendations of the

Code. Another important step on this path is our Annual Report 2005. For the first time, we have prepared our consolidated financial statements by applying the International Financial Reporting Standards (IFRS) which ensure a high degree of transparency and international comparability.

Shareholder Structure

Following the capital increase in April 2005, there were 5,525,000 no-par-value bearer shares outstanding at the end of the financial year. Weighted across the whole year, there were 5,372,945 shares outstanding. One share corresponds to one euro of share capital. All PHÖNIX SonnenAktie® (shares) are in free float. There are no shareholders with permanent possession and no majority shareholders. The members of the Board of Directors hold a total of some 8 percent. Institutional investors, including a number of international groups, have raised their stake in the company over the course of the year.

In the case of shares traded on the unregulated market, it is only possible to make statements of limited informative value on the shareholder structure. Para. 21 of the German law governing securities dealing, which prescribes a reporting duty as from a share of 5 percent in the share capital, does not apply to the unregulated market.

TRANSPARENCY AND INFORMATION FOR OUR SHAREHOLDERS

>> Financial calendar
>> Accounting pursuant to IFRS
>> Annual Report
>> Interim Report
>> Quarterly figures via press release
>> Regular presentations on the company at investor and analyst conferences
>> Press releases on the most important company events are distributed as "Corporate News" by way of mailing
>> Comprehensive web site with pages dedicated to Investor Relations with an all-round service for the Annual General Meeting
>> All information in German and English
>> E-mail service for our shareholders

Visit our Investor Relations pages on our web site under
www.SonnenStromAG.de >> Investor Relations

Investor Relations

The extending of capital market communication activities and enhancing transparency were the main areas of focus for investor relations in the financial year 2005. In addition, an interim report, quarterly figures and information in English were

published to supplement communication activities.

Relations to investors are characterised by openness and transparency. Accordingly, Phönix SonnenStrom AG arranged a number of individual and group discussions, road shows (trips to investors) and conferences to give information on the financial situation, the strategy and the future prospects of the company. The central topics were the international growth strategy and the procurement situation in respect of solar modules. The numerous targeted measures which Phönix SonnenStrom AG has implemented have enabled the company to win new investors and to strengthen the confidence of existing investors.

Contacts with analysts were stepped up a great deal in the financial year 2005. Phönix SonnenStrom AG was analysed as part of the sectoral research carried out by ÖKO Invest, Citigroup Smith Barney and Commerzbank. Deutsche Bank and Independent Research prepared specific company reports, with Phönix Sonnen-Strom AG commissioning Independent Research to analyse the company. The research of Independent Research was addressed to private investors in particular and can be viewed on the web site of Phönix SonnenStrom AG.

Phönix SonnenStrom AG uses the corporate news of the Deutsche Gesellschaft für Ad-hoc Publizität mbH (DGAP) for the swift and transparent publication of company news. In addition, press releases are sent to interested parties and shareholders if desired, by an e-mail service.

The web site of the company offers comprehensive information on the company and the share. Each investor is able to obtain information on a daily basis.

KEY DATA

of the PHÖNIX SonnenAktie® (share)

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
Share capital	EUR 5,525,000
Stock exchange segment	Unregulated market (OTC)
Stock exchanges	Munich, Frankfurt am Main, Stuttgart, Berlin/Bremen
Sector	Renewable energies

KEY FINANCIAL DATA

PHÖNIX SonnenAktie® (share)

2004		
18/11/2004	First price in OTC trading, Munich	€ 8.50
31/12/2004	Daily closing price*	€ 7.15
	Market capitalisation**	€ 35,928,750
2005		
03/01/2005	Daily closing price*	€ 7.67
	Market capitalisation**	€ 38,541,750
30/12/2005	Daily closing price*	€ 15.88
	Market capitalisation***	€ 87,737,000
01/01/ – 31/12/2005	High / low*	€ 20.05 / € 7.67

* Floor trading, Frankfurt am Main
** with 5,025,000 shares
*** with 5,525,000 shares

DEVELOPMENT OF SHARE CAPITAL

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

* Entry into the Register of Companies

PRICE PERFORMANCE IN 2005

of the PHÖNIX SonnenAktie® (share) in euros
on the Deutsche Börse, Frankfurt am Main

Interval: 1 day

Responsibility

Expedient progress and sustainable value added: solar electricity secures the future

Responsibility

During the financial year 2005, the Supervisory Board monitored the management of business and carefully investigated the development of business in eight meetings. In addition to the future-oriented alignment of the Phönix Group, gearing entrepreneurial activity to the recommendations of the German Corporate Governance Code enhanced transparency for investors.

>> Setting up of an Audit Committee and a Personnel Committee in line with the German Corporate Governance Code

>> Control, risk monitoring and early warning systems already in place

>> Change in the members of the Supervisory Board and appointing of a new member

>> Commissioning of a new independent auditor

Report of the Supervisory Board

Report of the Supervisory Board to the Board of Directors and the regular Annual General Meeting on its audit of the financial statements as at 31 December 2005, of the report on the business situation of the company in 2005, of the consolidated financial statements and the management report on the Group, drawn up under IFRS/IAS standards in line with the option defined under Section 315a para. 3 of the German Commercial Code (HGB), as well as on its monitoring of management during the financial year and its statement on the report submitted by the independent auditors pursuant to Sections 171 para. 1 to 3 and 172 para. 1 German Stock Corporation Act (Aktiengesetz).

The Supervisory Board visiting the new office extension in Sulzemoos (from left to right).
Ulrich Th. Hirsch, Dr. Patrick Schweisthal, Prof. Dr. Thomas Zinser, J. Michael Fischl, Ulrich Fröhner, Prof. Dr. Klaus Höfle

GENERAL INFORMATION

In the year under review, the Supervisory Board met eight 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 and Dr. Patrick Schweisthal. On the occasion of the Annual General Meeting held on 29 July 2005, Prof. Dr. Thomas Zinser, tax consultant, was elected as the successor of Dr. Aribert Peters.

In the meeting of 16 February 2005, an Audit Committee and a Personnel Committee were set up as part of the implementation of the respective recommendations of the German Corporate Governance Code. The Audit Committee members are Ulrich Th. Hirsch, Dr. Patrick Schweisthal and Prof. Dr. Thomas Zinser. The Personnel Committee members are J. Michael Fischl, Ulrich Fröhner and Prof. Dr. Klaus Höfle. In two meetings with the independent auditors the Audit Committee established key audit areas and discussed the interim reports. The Personnel Committee met twice to discuss in particular the monitoring of goal agreements with the Board members.

In accordance with the resolution passed by the Annual General Meeting, the Chairman of the Supervisory Board commissioned AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft, a Munich-based auditing company, on 2 August 2005, with the auditing of the annual financial statements pursuant to Section 111 para. 2, pg. 3 of the German Stock Corporation Act and the consolidated annual financial statements and management report drawn up under IFRS/IAS standards in line with the option as defined in Section 315a para. 3 of the German Commercial Code. On 8 April 2006, the audit reports dated 23 March 2006 were submitted to all the members of the Supervisory Board.

On 9 April 2006, 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 2005
- the report of the Board of Directors on the business situation of the company
- the 2005 consolidated financial statements pursuant to the IFRS/IAS standards
- the report of the Board of Directors on the business situation of the Group in 2005

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

The annual financial statements and the management report on the company as well as the consolidated financial statements and the management report on the Group were audited by AWT Horwath GmbH Wirtschaftsprüfungsgesellschaft. The audit did not give rise to any objections; an unqualified audit certificate was issued.

In a process of ongoing consultation with the Board of Directors, in the preparatory discussions of the Audit Committee and through questioning and discussions with the external auditors in the financial statements meeting of the Supervisory Board held on 26 April 2006, the Supervisory Board has closely examined the annual financial statements and the management report submitted and 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 again;
- having conducted sample checks of the underlying substantiation of assets and liabilities, that 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 that the annual financial statements give a true and fair view of the net worth, financial position and earnings situation of the company is possible.

The independent auditors participated in the consultations. There is no doubt as to their independency.

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 have not taken place within the scope 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 supervisory obligation pursuant to Section 111 para. 1 of the German Stock Corporation Act. These reports contain information by the Board of Directors on the current earnings and financial position of the company pursuant to Section 90 of the German Stock Corporation Act and on the internal control, risk monitoring and early warning system pursuant to Section 91 of the German Stock Corporation Act and comprise the following, among others:

a) Reports on the development of the stock corporation
b) Reports on major developments in the company (including personnel, substantial losses etc.)
c) Reports on the development of and insights gained from internal control and risk monitoring systems
d) Reports on the development of the subsidiaries and the branch offices
e) Reports by the members of the Board of Directors on the development of the areas of their respective responsibilities

In addition, the Supervisory Board was informed on a monthly basis about the balance sheet of the company, the financial analyses and target/performance analyses.

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

– development of a corporate strategy and agreement regarding the impact on the corporate planning as well as on the processes and organisational structure
– acceptance and discussion of the reports of the Board of Directors in accordance with Section 90 of the German Stock Corporation Act on the liquidity and financial position, the intended business policy and other fundamental issues relating to corporate planning (especially financial, investment and personnel planning)
– supervision of the implementation of the internal control system (risk monitoring and early warning system pursuant to Section 91 of the German Stock Corporation Act) and relaying of the information thus obtained to the Supervisory Board
– monitoring of the stock exchange price of the company
– acknowledgement of the development of instruments for optimising procurement
– human resource development in 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 passing of resolutions on expansion measures and the results of any related due diligence audits

STATEMENT ON THE REPORT OF THE INDEPENDENT AUDITOR

On 26 April 2006, 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:

The results of the audit carried out on the annual financial statements and the management report at company level for 2005, as well as the consolidated financial statements and Group Management Report by the independent auditor, who has issued an unqualified audit certificate, were acceded to by the Supervisory Board based on its own examination. Following the final result of the examination by the Supervisory Board, no objections were raised. Accordingly, the annual financial statements as at 31 December 2005 were ratified by the Supervisory Board in its meeting on 26 April 2006, and are thereby adopted. Moreover, the Supervisory Board approves the proposal of the Board of Directors to propose by way of resolution to the Annual General Meeting to carry forward the balance sheet profit of EUR 3,872,781.41 to new account.

Moreover, the Supervisory Board ratifies the consolidated financial statements as at 31 December 2005 and the management report on the Group for the year 2005.

Sulzemoos, 26 April 2006

J. Michael Fischl
Chairman of the Supervisory Board

J. Michael Fischl
Chairman of the
Supervisory Board

Ulrich Fröhner
Deputy Chairman of the
Supervisory Board

Prof. Dr. Klaus Höfle

Dr. Patrick Schweisthal

Prof. Dr. Thomas Zinser

Ulrich Th. Hirsch

Prospects

Dwindling fossil resources and a growing global demand for energy: there is no way around solar electricity

Prospects

In the course of 2005, Phönix SonnenStrom AG developed into one of the five largest system suppliers in the German photovoltaic sector. It has become one of Europe's foremost companies in power plant construction. In particular through the use of thin film technology and successful systems technology developed in-house, the Phönix SonnenStrom Group has generated significant competitive advantage for itself.

>> Construction and start of operation of one of the world's largest photovoltaic plants as well as two large-scale plants with thin film technology

>> Securing of module supplies by concluding framework agreements and extending procurement activities

>> New development and successful market launch of the "Tecto-Sun" assembly system for slanting roofs

>> Greater customer proximity and enhanced service availability through the strategic expansion of sales regions

Management Report on the Group

PREFACE

This report is a description of the business performance of the Phönix SonnenStrom Group in the financial year 2005. Alongside Phönix SonnenStrom AG, the parent company, the Group comprises the subsidiary Phönix Projekt & Service AG and its subsidiary Phönix SonnenFonds Verwaltungs GmbH. The parent company has the controlling influence within the Group. The consolidated financial statements as at 31 December 2005 were prepared for the first time pursuant to the International Financial Reporting Standards (IFRS).

The parent company Phönix SonnenStrom AG 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.

The names "Phönix SonnenStrom Group" and "Phönix Group" are used as synonyms in this report and respectively represent the three affiliated companies, as shown below in Figure 1. If the name Phönix SonnenStrom AG is mentioned exclusively, the statement in question is relevant to the parent company only.

Fully consolidated companies belonging to the Phönix SonnenStrom Group

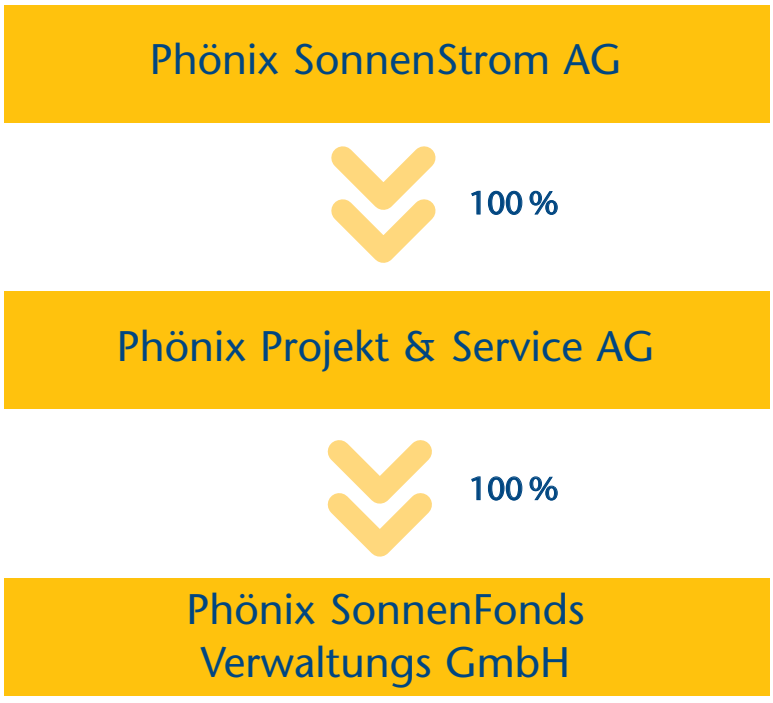


Figure 1

1. GENERAL CONDITIONS

1.1 Macroeconomic trends

International economic growth slowed in 2005. Real gross domestic product (GDP) growth of countries in the euro zone came to a mere 1.4 percent, down from 2.1 percent in the previous year. The price of raw materials, especially of oil and gas, was the main burdening factor. In the second half of 2005, however, the economy in the EMU countries began to pick up momentum again, supported by an acceleration in investment activities and strong export growth. In Italy, which is an important market for the international operations of the Phönix SonnenStrom Group, the economy gradually recovered over the course of 2005. However, the country posted a real growth rate of just 0.2 percent. The Spanish economy generated a real increase of 3.5 percent, which was one of the highest growth rates in the euro zone. Stimulus in Spain came mainly from private consumption, with capital expenditure playing an increasingly significant role.

In 2005, German economic growth was in the middle range of the euro zone countries. In comparison to the previous year, GDP rose by a price-adjusted 0.9 percent. The persistently unsatisfactory situation on the labour market and pressure on real income from higher energy prices caused private consumption to stagnate. The savings ratio rose again to 10.6 percent, thus reaching its highest level since 1995 (11 percent). Economic expansion in 2005 was almost exclusively attributable to foreign trade where exports, which posted 6.2 percent, grew considerably faster than imports which rose by 5.0 percent. Brisk foreign demand and rising company profits encouraged capital expenditure to expand by 4.0 percent, thus reaching its highest level since the year 2000 (+ 10.7 percent). By contrast, investments in buildings fell again (– 3.6 percent).

1.2 Trends in the photovoltaic sector

The general environment for the photovoltaic sector has continued to improve worldwide. Against the backdrop of fossil and nuclear energy resources which are becoming increasingly scarcer and more expensive, a growing number of countries in Europe and around the world are opting for the introduction of subsidised models to promote renewable energies. Many of these models are based on the German law on renewable energies (the Renewable Energy Act).

The development in the general conditions of the photovoltaic market also led to global demand for solar modules far outstripping supply in 2005. Sales soared by around 25 percent worldwide. The insufficient availability of solar silicon was a drag on the sales uptrend. Silicon is the most important substance used in the production of poly- and monocrystalline solar cells.

According to a number of banks, the global photovoltaic market came to a total peak power output of around 1,150 megawatts (MWp) in 2005. The European Photovoltaic Industry Association (EPIA) reached the same assessment of the market.

Silicon as a raw material essential to the manufacturing of solar cells has been in short supply since 2004. This shortage has led, on the one hand, to major silicon producers swiftly ramping up their capacities so that the first additional supplies will be available at the end of 2007 and, on the other, opens up new market opportunities for photovoltaic thin film technology. The building up of capacities in a number of thin film methods (e.g. amorphous silicon (a-Si) and copper indium diselinid (CIS)) is dependent only to a small extent on the availability of solar silicon. This is where we see a great deal of growth potential. EPIA also anticipates that the global market share of thin film modules produced by a number of different technologies will have grown from 4 percent in 2004 to around 20 percent by the year 2010.

In 2005, the development of the photovoltaic sector, in Germany in particular, was also characterised by a growing interest on the part of the financial community. Numerous solar companies, including Phönix SonnenStrom AG as a listed company, were regularly analysed by major commercial banks in company reports.

The solar industry had its first IPOs back in the years 1998 to 2000. Against the background of the generally difficult economic environment in the years from 2001 to 2004, the financial community showed little interest in the photovoltaic sector. The listing of Phönix SonnenStrom AG on 18 November 2004 marked the admission to the stock exchange of the first company of the sector in two years. In 2005, the conditions on the stock exchange developed favourably with the result that share prices performed well and a number of companies went public, five of them from the photovoltaic industry.

1.3 Procurement market /suppliers

Upstream to system integration, the photovoltaic value chain is divided into companies specialised in the production of solar silicon, wafers, solar cells and solar modules.

Photovoltaic value chain

Figure 2

Whereas suppliers of the raw material silicon are in a market environment with few participants (oligopoly), the number of manufacturers in every link in the value chain through to module production is growing. Capacities are currently being built up worldwide in all the links in the value chain.

The most important production locations are Japan, Germany, China and the USA. In Japan there are competences in module as well as wafer and cell production. Japanese manufacturers are harder hit by scarce supplies owing to the oligopoly market for solar silicon and the resulting contractual conditions. In China, large production facilities for modules have been built but the downstream links in the value chain are less well covered. Germany has outstanding competence in solar cells and wafer production and, in effect, caters for all the links in the value chain. In the USA, capacities in crystalline technology are lower. At present, there is a strong trend emerging towards the production of thin film modules by way of different technologies. Germany also appears to be going in this direction.

Accordingly, the aforementioned survey of EPIA estimates the growth potential of thin film modules at an annual average of 65 percent between 2004 and 2010. In the case of crystalline modules, this growth figure is likely to be 22 percent per year.

For the Phönix Group, the most important suppliers are the manufacturers of modules. Trading relations with module manufacturers have undergone a fundamental change in recent years. Whereas the module market was a spot market a few years ago, framework agreements which run over a number of years are meanwhile being concluded. The shortage of silicon means that some producers require prepayments to secure supplies.

1.4 Sales market / demand in the EU

The huge demand for photovoltaic plants held steady in many international markets in 2005. The global market had reached a size of around 1,150 MWp in 2005. As in the year 2004, Germany was the largest market for photovoltaic systems in 2005, followed by Japan and the USA. Alongside Germany, two other markets in Europe with strong growth potential for photovoltaic systems established themselves: Spain and Italy.

In the wake of the introduction of the law on the compensation of PV-generated electricity in Spain in 2004, the Spanish market attained a volume of an estimated 20 to 25 MWp in 2005. Upon amendment of this law (Royal Decree 436/2004), the target for the aggregated total of installed photovoltaic output has been raised to 400 MWp by 2010. This goal is the equivalent of an annual average market growth of 35 percent.

The significance apportioned to large-scale green-field plants is specific to the Spanish photovoltaic market. Considering the size of the market and the fact that a substantial share has been implemented in the form of major projects, it becomes clear that the distribution market is in the process of being built up and that, as yet,

there are few fixed structures. Customers of the Phönix Group in Spain include both specialised solar traders and project specialists managing projects involving small to medium-sized photovoltaic plants (with a peak power output of between 20 and 200 kilowatts (kWp)).

In 2004, Italy passed a law on the compensation of solar energy sold to the grid. On 26 July 2005, there followed the publication of a decree which defined the detailed framework conditions related to this law. This new regulation generated lively interest in grid-connected photovoltaic systems. In the first round of approvals alone at the end of September 2005 based on this new set of regulations, applications for photovoltaic systems came to a total peak power output of 120.8 MWp. This clearly indicates the market potential which can be anticipated for photovoltaic systems in Italy. The great demand has led to the overall target for aggregated photovoltaic peak power output in Italy until 2015 being revised upwards from an original 300 kWp to 1,000 MWp. The maximum peak power output subsidised under this law was fixed at 85 MWp.

In other European countries as well, for instance in Greece, efforts are under way to make regulations for payments for PV-generated electricity more attractive.

1.5 Sales market / demand in Germany

In the year 2005, the German photovoltaic market was above all characterised by persistently high excess demand. Two factors had a major impact on the course of a strong year: At the start of the year, demand was reticent due to the weather, and the months of May and June saw demand flag temporarily as a response to the announcement of new government elections. By the end of June, however, demand had reached levels which outstripped supply.

The sale of photovoltaic plants in Germany rose substantially in 2005. The sector anticipates reliable information on the overall market from the release of the photovoltaic plant register by the Federal Ministry of the Environment. The Phönix SonnenStrom Group ranks among the five largest system suppliers in the German photovoltaic sector.

Forecasts made by well-known banks and institutes do not anticipate a reversal in the growth trend on the German market in the years ahead. They predict an average growth of around 20 percent a year.

Demand for photovoltaic plants in Germany is buoyed by the public's deep awareness of the need to conserve the environment against the background of a stable political environment. In addition, spiralling costs and the uncertain availability of conventional sources of energy are factors of growing significance.

In comparison to the previous year, the size range of photovoltaic plants in demand has grown considerably to between 10 and 500 kWp, which is way above sizes in 2004. This trend is also discernible from the statistics of the BSW (German solar

industry federation). Preference was given to building systems on existing roofs and, in the range of more than 500 kWp, were often realised as green-field plants. Each available module was placed on the market, irrespective of the technology, with demand tending towards favouring thin film modules.

As concerns inverters, the situation has eased in comparison to the previous year. Manufacturers had built up enough capacity to cover demand, causing prices to fall marginally by 2 to 3 percent in 2005. This is likely to be the case in 2006 as well.

1.6 General conditions in the EU and abroad

Since the introduction of the Renewable Energy Act in 2000 and the ensuing stimulus in the market, a number of European countries have emulated Germany. They have established subsidised models for solar electricity to be fed into the grid which, in terms of their basic features, are similar to the German model. The most important markets after Germany are Spain and Italy. Both countries have determined payment rates for PV-generated electricity, staggered according to the size of the plant.

In Spain, compensation per kWh came to EUR 0.42 in 2005 for plants with a peak power output of up to 100 kWp and EUR 0.22 per kWh for larger plants. Payment is guaranteed for a period of 25 years under the law and is then subsequently effected at a level of 80 percent until the plant comes to the end of its useful life.

In Italy, the compensation differential is even greater. Solar electricity generated by plants of up to 20 kWp is compensated in the amount of EUR 0.45 per kWh which rises to EUR 0.46 per kWh for plants of up to 50 kWp and to EUR 0.49 per kWh for plants up to 1 MWp, which is the maximum size permitted for a plant.

In Greece as well, a bill for the compensation of PV-generated electricity was submitted in 2005 which still has to be debated by parliament in 2006. Countries such as France and the Czech Republic are considering the option of promoting photovoltaic plants much more strongly.

In non-European countries the activities to promote photovoltaic systems, above all in the grid-connected segment, are steadily picking up momentum. In California, a promotion package for solar electricity worth USD 3.2 billion was approved. The programme will run for eleven years.

South Korea has initiated a very ambitious photovoltaic programme. By the year 2010, the accumulated output in the country is to be raised to 1.3 gigawatt peak power output (GWp), the accumulated installed output having been at 8.5 MWp in 2004. This goal is to be achieved through investments subsidies of 70 percent for smaller plants up to 3 kWp on homes and a PV tariff for commercial large-scale plants of EUR 0.57 per kilowatt hour. There is currently a fixed upper limit for the promotion of large-scale facilities of a total of 20 MWp until October 2006.

1.7 General conditions in Germany

Electricity sourced from renewable energies currently makes up 10 percent, which is evidence of an increasingly larger share in the general supply of electricity in Germany. In comparison with the peak load prices, solar electricity is attaining an increasingly more competitive position. The BSW assumes that solar electricity will become competitive in the peak load segment in the next 10 to 15 years and will today already start to brake the rising price of electricity through lower price increases.

In Germany, the Renewable Energy Act has created stable conditions for the generating and feeding into the grid of solar electricity. Payment rates for PV-generated electricity depend on the size and type of the plant and fell on 1 January 2005 by the anticipated 5 to 6.5 percentage points. In the case of a roof-mounted photovoltaic system of up to 30 kWp, the rates paid per kilowatt hour of electricity fed into the grid came to 54.43 cents. Lower rates are paid for large-scale and ground-mounted plants, and higher rates for façade-mounted systems.

The growth sector of renewable energies has achieved a strong position on the labour market and is one of the few industries which is creating jobs. By the year 2004, the number of jobs created in this industry had come to 130,000, thus exceeding new jobs in the companies in the conventional production of energy (black and brown coal and atomic energy) by a good 20 percent.

2. BUSINESS PERFORMANCE IN THE FINANCIAL YEAR 2005

2.1 General

Business model

The core competence of the Phönix Group is anchored in photovoltaic systems technology. Value added is derived from this technology for the power plants and components & systems segments served by the Group. The Group's products and services are offered throughout Europe.

The chart below shows the business model of the parent company with the various segments and illustrates value added.

Business model and value added of Phönix SonnenStrom AG

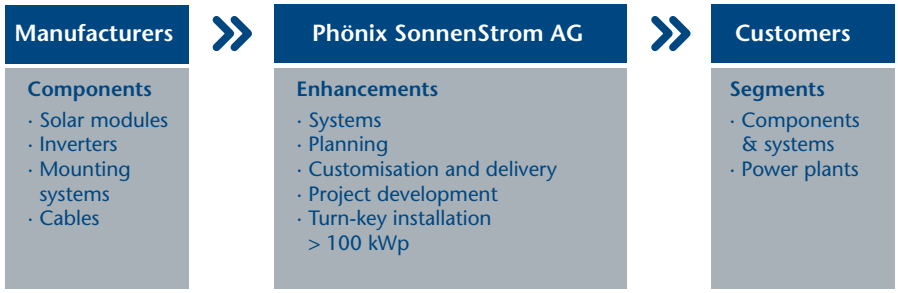


Figure 3

By photovoltaic systems technology we mean the intelligent combining of the components necessary for the cost-effective construction of a photovoltaic plant designed to generate an optimum return in compliance with prevailing standards. The exclusive focus on systems technology positions the Phönix Group as a bridge between the manufacturers of individual components, solar modules or inverters for instance, and the customer of photovoltaic plants.

Systems technology is the key in photovoltaics to fulfilling the most important wish of the customer: to generate solar electricity at minimum cost over the whole life of the photovoltaic plant. With its broad range of products and services, the Phönix Group caters for customer wishes which go beyond this, for example in respect of solar modules or inverters made by specific manufacturers and additional services, such as maintenance and plant management.

The strength of our business model, which is focused on photovoltaic systems technology, lies in the sourcing of solar modules and components independent of manufacturers at the best price/performance level possible. This enables the company to react flexibly and swiftly to market trends. All in all, the risk of the company

is considerably less than companies in production as the volume of investment and committed capital is comparatively low.

Competitive advantages of the Phönix SonnenStrom Group

- >> Technical competence and long-standing experience in the planning and construction of photovoltaic power plants in the megawatt range
- >> Ability to set up efficient sales structures in Germany and abroad
- >> Positioning at an early stage in the growing segment of thin film modules

Opportunities of the Group and of the business model

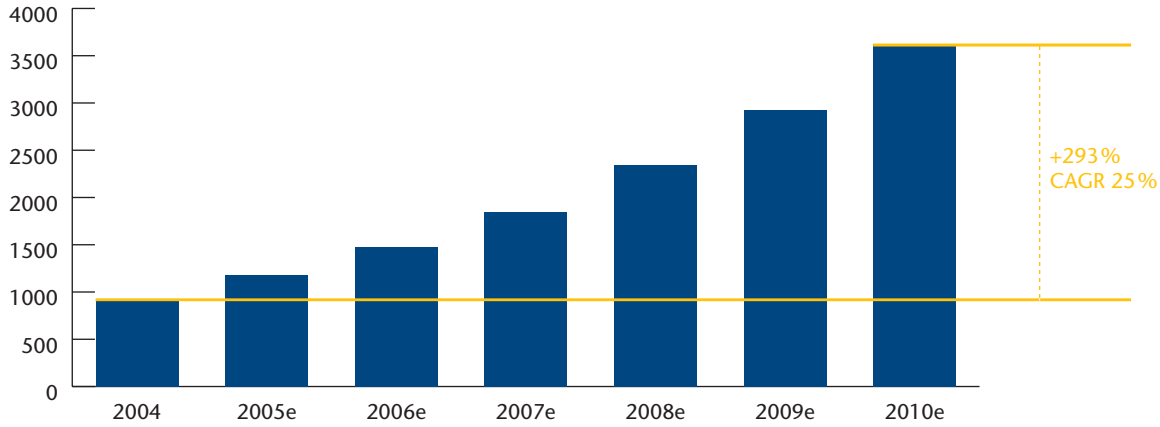
With its business model the Phönix SonnenStrom Group is excellently positioned for the future. We are convinced that our concentration on photovoltaic systems technology and internationalisation will deliver competitive advantages in the market. Extending our business model to include other renewable energy technologies is not envisaged and neither is vertical integration in the value chain. The business model of the Phönix Group is only comparable to a limited extent with the business models of other listed solar energy companies in Germany.

Long-term goals of the Group

With the long-term and consistent growth of the global photovoltaic market in mind (Figure 4), the Group plans to increasingly internationalise its business activities. The share of international business, which is a current 5.5 percent, is to be expanded to at least 10 percent in 2006.

The plan is to have positioned the company on a number of continents with its own subsidiaries or via acquisitions by the year 2010. The sales share to be generated in foreign markets is then to be raised to more than 50 percent.

Photovoltaic global market growth in the period up until 2010e



Source: Average of anticipated market development of LBBW, LRP, DB, CLSA; 2005

Figure 4

Locations

The headquarters of the parent company Phönix SonnenStrom AG and its subsidiary Phönix Projekt & Service AG, as well as the latter's subsidiary Phönix SonnenFonds Verwaltungs GmbH, is Sulzemoos in Germany. The proximity of these companies to one another releases synergies in the area of development, planning, financing as well as in the maintenance and managing of large-scale photovoltaic power plants. Sulzemoos is situated in the vicinity of the Bavarian state capital of Munich, has direct access to the Munich-Stuttgart motorway and an excellent transport infrastructure. The Power Plants segment is located in Ulm.

Sales and earnings trend

The sales and earnings of the Phönix SonnenStrom Group developed extremely well in the financial year 2005. Sales, which posted EUR 111.12 million, were raised 65 percent year on year (consolidated figure for 2004: EUR 67.3 million). Sales and growth in sales in the individual segments are shown below:

Sales and earnings trend

	Sales 2004 in € million	Sales 2005 in € million	Y/y increase %
Components & systems, Germany	48.45	67.13	+ 38.6
Components & systems, international	2.65	6.08	+ 129.4
Power Plants	16.25	37.91	+ 133.3
Phönix Group	67.35	111.12	+ 65.0

Sales and earnings forecast

In the course of 2005, the Phönix Group initially released a sales and earnings forecast and then revised it upwards several times. The forecasts are only for the parent company Phönix SonnenStrom AG.

In a press release dated 28 July 2005, a sales increase of 40 percent to EUR 94.1 million as against 2004 and an EBIT increase of 60 percent to EUR 4.53 million were forecast. The positive performance in the first three quarters enabled the Board of Directors to raise its EBIT forecast again to EUR 5.66 million when the results were made known on 30 September 2005. Once it became evident that module suppliers were able to deliver more solar modules over the year as a whole than assumed in the conservative planning, the sales and earnings expectations were raised anew in the press release dated 8 December 2005. In addition, a long-term forecast for the coming years was drawn up for the first time. In 2006 the company anticipates sales of EUR 140 million and EBIT of EUR 8.0 million. Sales in 2007 are expected to reach EUR 200 million. The sales and earnings figures actually achieved in 2005 show management's policy of a conservative approach to forecasting.

The sales trend of the Phönix Group in the years from 1999 to 2005 is shown in Figure 5. The figures of 1999 to 2004 relate solely to the parent company and were compiled under the German Commercial Code (HGB). From 2005 onwards, the results of the Phönix Group will be disclosed on a consolidated basis pursuant to IFRS. In the years from 2003 to 2005 alone sales were raised by more than 370 percent.

Sales trend from 1999 to 2007e
In € million

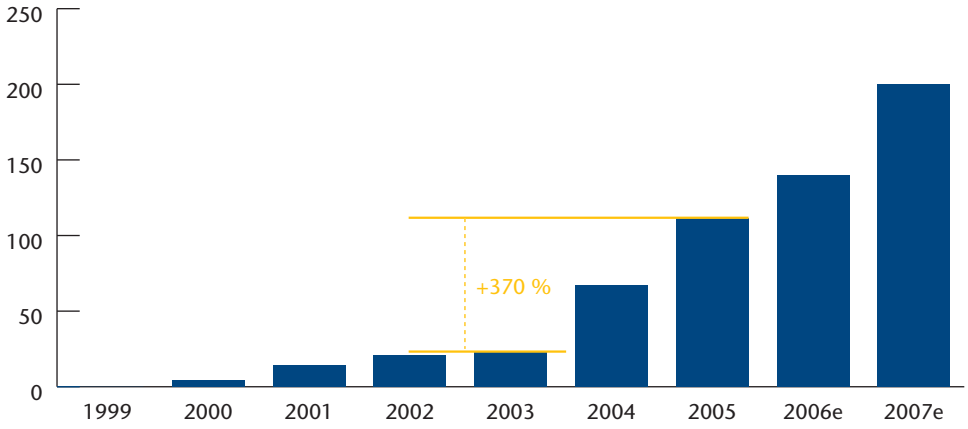


Figure 5

Group risk and financial control /performance capabilities of the Group
Alongside other company key data, the EBIT margin is an important parameter for managing the Group. The EBIT of the Phönix Group was raised on a steady basis in 2005. Both sales and gross margins were higher than budget.

Changes in the Supervisory Board of the parent company
At the regular Annual General Meeting held on 29 July 2005, Dr. Aribert Peters, a founding member of the Supervisory Board, did not stand as a candidate for election to the Supervisory Board. In his place, Prof. Dr. Thomas Zinser, tax consultant, was newly appointed to the Supervisory Board.

Changes in the management of Phönix SonnenFonds Verwaltungs GmbH
In the financial year 2005, Phönix SonnenFonds Verwaltungs GmbH carried out the administration of a number of solar operators, as in previous years. Sabine Kauper, MBA, who, together with Florian A. Ferber, had headed up the company since November 2004, laid down her office on 30 September 2005. Mr Ferber has been the sole managing director and representative of the company since 1 October 2005.

PHÖNIX SonnenAktie® – the share of Phönix SonnenStrom AG
Over the period from 30 December 2004 to 30 December 2005, the price of the PHÖNIX SonnenAktie® rose from EUR 7.15 to EUR 15.88, which means that it more than doubled. On the occasion of the issuing of new shares in the context of a capital increase in April, two major German fund companies were won as new shareholders. Market capitalisation climbed from just under EUR 36 million at the start of the year to almost EUR 88 million. Since July 2005, the company has committed itself to complying with more stringent reporting duties through its switch to the M:access quality segment of the Munich Stock Exchange. Since 1 December 2005, HSBC Trinkaus & Burkhardt has been mandated to look after the share as designated sponsor in the electronic trading system XETRA.

2.2 Earnings, financial position and net worth

Earnings
The Phönix Group kept up the pace of its dynamic growth. The sales volume soared 64.99 percent, up from EUR 67.35 million to EUR 111.12 million, which signifies that the growth of the Phönix Group was substantially above target.

The following charts compare 2004 and 2005 and show the development of sales distributed between the Components & Systems and Power Plants segments. The comparison shows that, in terms of an absolute sales increase, the Components & Systems segment expanded on a percentage basis as well, rising from a 4 percent share in 2004 to a 5.5 percent share in sales in 2005. The Power Plants segment

lifted its sales share significantly from 24 percent (2004) to 34.1 percent (2005) and is becoming increasingly important. The mainstay of business is still Components & Systems with a sales share of 65.9 percent (2004: 76 percent). In a geographical breakdown, 94,5 percent of sales are generated in Germany (2004: 96 percent). International business grew from 4 percent to 5.5 percent.

Sales by business segment in 2004

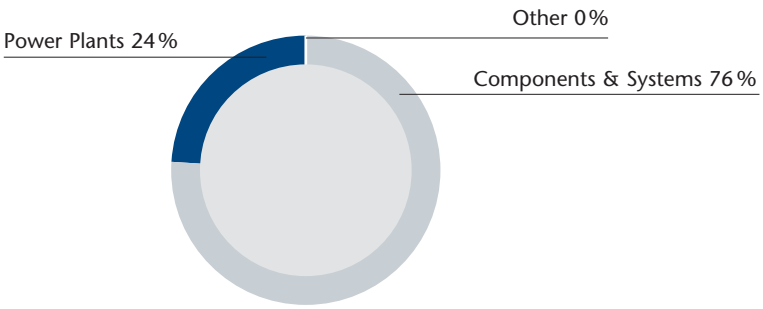


Figure 6

Sales by business segment in 2005

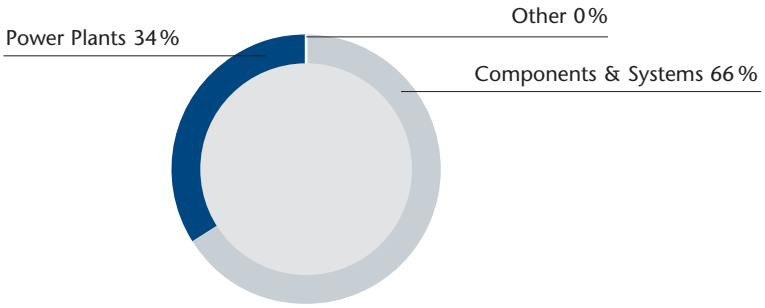


Figure 7

Sales by geographical market in 2004

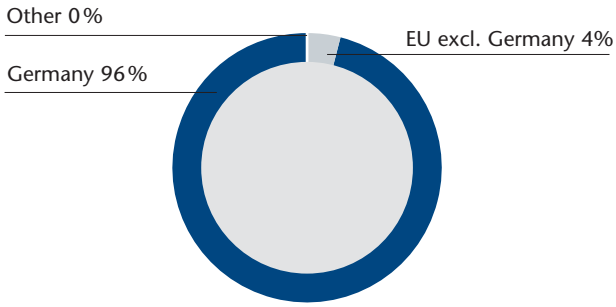


Figure 8

Sales by geographical market in 2005

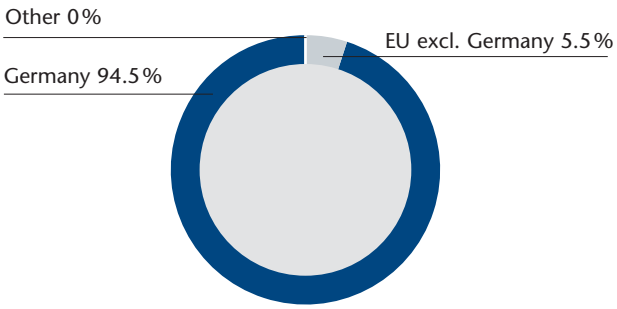


Figure 9

Growth was reflected positively in the result as well. With a slight increase in the gross profit margin, EBIT rose from EUR 2.47 million to an above-average EUR 7.68 million, and the EBIT margin climbed as well, up from 3.7 percent to 6.9 percent.

The balance sheet loss of EUR 2.53 million as per 1 January 2005, which came about due to start-up losses, was fully used up in 2005.

Earnings per share of the parent company increased from EUR 0.34 to EUR 0.92.

The consistent optimisation of workflows allowed the ratio of personnel costs to sales revenues to be reduced by one percentage point as against the previous year.

Other operating income comprised, among other components, payments received for PV-generated electricity for the period of the construction phase and of the trial run of operations of the Miegersbach Solar Park. Other operating income thus rose from EUR 0.19 million to EUR 1.17 million.

Financial position

The cash flow from operating activities also performed well, rising from EUR – 1.25 million to EUR 11.64 million.

Owing to the business model of the Phönix Group, the investment costs for tangible assets were relatively low in comparison to companies in the production sector.

The rise in the cash flow from financing activities from EUR 1.65 million to EUR 5.18 million was attributable to a capital increase in April 2005.

Cash and cash equivalents soared from EUR 3.37 million to EUR 20.07 million, which provides a sound financial basis for further growth. The liquidity of the Group was guaranteed at all times.

Bad debt of a more major dimension in the project and distribution business was not recorded in the financial year due to an efficient management of accounts receivable.

The primary goal of the financial management of Phönix SonnenStrom AG is to secure liquidity. To ascertain the need for liquidity, a rolling financial plan is used on a calendar week basis.

Phönix SonnenStrom AG has credit lines available at three banks. These financing measures serve to secure the supply of liquidity, even if there should be a sudden need for greater amounts caused by rapid changes in the market environment. On the reporting date, the company had unutilised current account lines worth EUR 13.88 million, with a term until mid-2006 respectively, whereby the company assumes that all three current account lines will be renewed.

To take account of the growing importance of financial management of the Group, a treasury department is to be set up in 2006.

Net worth

Summarised balance sheet and balance sheet structure

Assets	31/12/2005 in T €	%	31/12/2004 in T €	%
Fixed assets	2,174	5.9	2,609	12.8
Current assets	34,157	94.1	17,588	87.2
Total assets	**36,331**	**100.0**	**20,197**	**100.0**

Liabilities & shareholders' equity	31/12/2005 in T €	%	31/12/2004 in T €	%
Equity	23,244	64.0	12,012	59.6
Long-term liabilities and provisions	446	1.3	405	2.1
Current liabilities and provisions	12,641	34.7	7,780	38.3
Total liabilities	**36,331**	**100.0**	**20,197**	**100.0**

The growth of the Phönix Group is also reflected in the increase in total assets which rose from EUR 20.20 million to EUR 36.33 million. An influencing factor here was, among others, the capital increase by a nominal EUR 0.50 million which served to strengthen the equity basis of EUR 6.31 million in total.

Another effect was the increase in the equity ratio which advanced from 59.47 percent at year-end 2004 to 63.98 percent at year-end 2005. Moreover, tax carry-forwards were fully used up during the reporting period, which caused tax on the liabilities side to rise from EUR 0.26 million to EUR 2.23 million.

In the scope of the ground-mounted large solar power plant in Miegersbach, Bavaria, sold in the form of a closed solar energy fund, Phönix SonnenStrom AG participated in the long-term financing of this fund. In this context, a long-term receivable of EUR 0.45 million was disclosed.

As regards accounts receivable, there was an increase of 53.95 percent as against the previous year, the reason being that, by the end of December 2005, Phönix SonnenStrom AG had completed and invoiced for the second and thus last construction phase of Miegersbach Solar Park. The resulting account receivable made up a major part of the receivables portfolio on the reporting date. Despite the sizeable growth in the volume of business, the capital committed to inventories among other items was slashed from EUR 7.27 million to EUR 3.83 million by optimising logistics procedures and workflows.

Deferred tax assets fell year on year, to EUR 5,000 down from EUR 0.81 million, which was attributable to the full utilisation of all tax loss carryforwards which had been recognised in the balance sheet as tax assets in the previous year.

Owing to the expansion of business, trade creditors rose from EUR 4.84 million to EUR 7.01 million.

In hedging existing or planned deals, the only derivative instruments the Phönix Group uses are forward exchange transactions. On the reporting date, there was a short-term forward exchange transaction in a nominal value of EUR 5 million.

All in all, the management of Phönix SonnenStrom AG assesses the economic situation of the Phönix Group as positive.

3. SEGMENTS

3.1 Components & Systems (Germany)

The year 2005 saw the sales and earnings of the Components & Systems (Germany) segment at their highest level to date. Despite the tight situation concerning the delivery of solar modules, the sales target was exceeded by 20 percent. Sales in 2005 came to almost EUR 68 million (2004: EUR 48 million), which corresponds to growth of nearly 39 percent in a year-on-year comparison. Domestic sales and distribution of components and systems contributed 61 percent to total sales.

The Phönix Group is represented throughout Germany via its virtually comprehensive network. In 2005, business was newly divided up and reallocated to seven sales regions. The greater proximity to our customers has fostered confidence in our work together and enabled a better response time.

The building up of a premium partner network with selected premium partners creates acceptance with our partners. In addition, it promotes greater customer loyalty to the PHÖNIX® brand and raises the level of product penetration with our premium partners. This was how more sales with concurrently higher, absolute earnings were achieved with these carefully selected sales partners.

It was also possible to pass on the price increases of manufacturers to the market for the most part, which is also a reflection that the measures implemented to improve the customer structure (premium partners with an area-wide presence) and the sales structure (customer proximity and better response times enabled by the new sales structure) are bearing fruit. Similarly, the streamlining of logistics processes with enhanced availability and excellent adherence to deadlines also contributed to the success. In 2005, we were unable to take a number of orders

and had to strategically allocate the modules available according to quotas and customer groups.

The available module portfolio of manufacturers restricted the realisation of projects with a peak power output of over 100 kilowatt, as it is very difficult to deliver the required amount of modules of a particular output category and type to the customer by the agreed date.

Our customers' acceptance of the measures is proof that we have built a sound basis for further successful development in the years ahead.

3.2 Components & Systems (international)

In the financial year 2005, the international business of the Phönix Group was shaped by its main markets moving away from central to southern Europe. Activities and sales were focused on Spain, with partnerships being built up and sales generated in Italy and Greece as well. The major part of sales abroad was achieved by the Components & Systems segment in the financial year.

Sales generated by international operations came to EUR 6.1 million in total in 2005, which represents an increase of 129.4 percent as against the previous year. The share of international business in the sales of the Group thus rose 37.5 percent, from 4 percent in 2004 to 5.5 percent in 2005.

The international customer base was extended, with participation in the three-day energy trade fair GENERA in Madrid, Spain, in February 2005 playing a major role in deepening many contacts and making new ones.

In April 2005, there was a celebration to inaugurate a grid-connected 20 kWp solar electricity system, project-managed and built by the Phönix Group, on the roof of the German School in San Salvador. This photovoltaic system is currently the largest grid-connected plant in Central America. It was developed under the "Solar Roofs on German Schools and Facilities Abroad" programme as part of a scheme of Deutsche Energie-Agentur GmbH (dena) entitled "Renewable Energy Export Initiative". This project was an important step for the Phönix Group in the direction of new markets outside Europe.

3.3 Power Plants

In the financial year 2005, the Phönix Group reinforced its pan-European leadership in the construction of large-scale solar power plants. Alongside the photovoltaic plant built on the roof of Munich's new Trade Fair Centre in 2002, then the world's largest roof-mounted plant, the Phönix Group delivered proof of its competence in the construction of large ground-mounted photovoltaic plants by constructing a number of new large-scale plants. The power plant in Waltenhofen in the district of Fürstenfeldbruck (400 kWp, December 2003), and the largest green-field system to be built with thin film modules in 2004 in Buttenwiesen, district of Dillingen an der Donau (1 MWp, August 2004), were two state-of-the-art solar facilities important for the Group's ongoing business development.

In 2005 alone, three megawatt power plants, which were of major importance to the Group, were planned and built. Two of them were constructed using the thin film modules of the supplier First Solar for the first time. One of the largest photovoltaic plants in the world is Miegersbach Solar Park with an installed power output of 5.3 MWp which feeds directly into the 29 kV medium voltage grid. This plant was project-managed and built by the Phönix Group using crystalline modules in the year under review. Construction work on the first thin film module plant, using First Solar modules (1 MWp), began in October in the community of Reussenköge, in the district of Nordfriesland. A second 1 MW plant using this module type will be constructed starting in November in the municipality of Buchheim near Würzburg.

Miegersbach Solar Park

Thanks to the commitment of our employees and sub-contractors, all projects became operational on schedule by the end of the year, despite the early advent of winter, and could be invoiced for. This extremely short time horizon serves to illustrate that the assembly system and procedures developed by the Phönix Group enable construction to proceed swiftly, even if environmental conditions are not particularly favourable.

Sales generated by the Power Plants segment grew from EUR 16 million to just under EUR 38 million in 2005, which is an increase of around 133 percent and a contribution to total business of 34 percent. As in the year before, the restricted availability of solar modules and partly late delivery by module manufacturers in 2005 prevented a more rapid growth rate in this segment. In 2005 as well, the bulk of sales was generated in the second half of the year. A similar trend is expected in 2006 as well, keeping the rising module capacity over the course of the year in mind.

The amendment to the law on renewable energies, which came into force in January 2004, makes operating larger photovoltaic plants particularly attractive. This has substantially boosted the demand of fund initiators and companies intending to build photovoltaic plants with a peak power output substantially above 100 kilowatts. Companies mainly want roof-mounted systems. As before, large-scale photovoltaic plants for funds are installed primarily through the method of ground-mounted assembly on green-field sites because there is a great shortage of large roof surface space which is both suitable and sufficient.

Due to the rising costs of modules in 2005 as well, preference was increasingly given to thin film modules in photovoltaic green-field plants as these modules are relatively cost effective. We anticipate that there will be virtually no more ground-mounted photovoltaic plants constructed with crystalline modules in Germany in 2006, and that this market segment will be covered almost exclusively by thin film modules.

In addition, thin film modules are becoming increasingly attractive for roof-mounted projects, also in view of the higher prices for crystalline modules. Especially if the roof statics of relatively flat, modern industrial buildings do not permit the elevation and tilting of solar modules on separate mounting structures, thin film modules, which can be mounted parallel to the roof, are an alternative and a competitively viable option. Although the specific energy yield is not as high with this solution, this disadvantage is compensated for by cost savings through the simpler sub-construction and the lower specific costs of thin film systems.

Maintenance, plant management and providing services are becoming increasingly important in the Power Plants segment, even if their share in sales is not decisive. With large-scale plants which cannot be managed 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 the Phönix Group confers a considerable competitive advantage which we intend to use well. In 2005, work began on building

up a Control Centre in the Ulm location to be completed in 2006. This will enable us to offer our customers a 7-day full service for monitoring of photovoltaic plants, handling and resolving technical problems.

4. GROUP COMPANIES

Phönix SonnenStrom AG has been the sole shareholder of Sulzemoos-based Phönix Projekt & Service AG (formerly known as SolAG) since its takeover in 2002. The subsidiary has a share capital of EUR 132,000. The subsidiary's main purpose is to develop projects involving large-scale photovoltaic plants in Germany and abroad in the context of a long-term strategy, to accompany their realisation through the power plant construction operations of Phönix SonnenStrom AG, and to find investors for the completed facilities. The tasks of the company also include project planning and the sale of smaller roof-mounted photovoltaic systems. Having had an annual loss of EUR 118,808 in 2004, Phönix Projekt & Service AG closed the year under review with a net income of EUR 154,551 under the German Commercial Code.

In 2005, Phönix Projekt & Service AG sold three on-roof systems with a peak power output totalling 117 kilowatts.

In the reporting year, Phönix Projekt & Service AG mainly channelled its activities towards working on the Miegersbach Solar Park, the completion of which marked a milestone as the Group had constructed one of the largest photovoltaic green-field plants in the world. A strong partner in the financing of this major project was found in KG Allgemeine Leasing (KGAL), Grünwald. ALCAS GmbH, the investment company of KGAL, acted as the initiator and manager of this fund. Equity worth EUR 6,120,000 was placed within a short period of time. General contractor and operator of the project was Phönix SonnenStrom AG. There are plans to expand the cooperation between KGAL and the Phönix Group.

Preparations for more projects of similar dimensions are under way. These projects are to be implemented in cooperation with the parent company in 2006. This includes a green-field plant for a Bavarian municipality with a projected peak power output of one megawatt.

Phönix SonnenFonds Verwaltungs GmbH, also based in Sulzemoos, took over the administration of twelve solar funds set up under the German legal form of GbR and GmbH & Co. KG. The company closed the financial year with an annual net income of EUR 5,604.

5. PROCUREMENT AND PURCHASING

The availability of modules and other components required for photovoltaic plants plays a crucial role in the development of the Phönix Group. In 2005, a total of 28.1 MWp worth of modules and 15.4 MWp of standard inverters were purchased. Of these modules 36 percent came from Germany, 28 percent from other EU countries and 38 percent from countries outside the EU. This volume formed the basis of the sharp sales growth seen in both segments.

The portfolio of module suppliers was optimised and expanded in 2005. Along with RWE SCHOTT Solar (which now goes by the name of SCHOTT Solar), Photowatt International, Mitsubishi Heavy Industries (MHI) and Shell Solar, Sumitomo / Sharp and First Solar joined the group of suppliers. Framework agreements were made with Photowatt, RWE SCHOTT Solar and First Solar in the same year.

Although most of the manufacturers of crystalline modules, including the suppliers of the Phönix Group, experienced delivery bottlenecks due to the shortage of silicon, very close cooperation between the units of procurement, sales, in-bound sales and logistics proactively minimised the consequences of delivery delays for our customers. We have closed an additional supply contract with RWE SCHOTT Solar which entailed prepayment to secure a major portion of the quantity ordered in 2006.

Two suppliers were unable to make full delivery of the agreed volume in 2005. One manufacturer informed us of manufacturing difficulties in October 2005 and, as from December 2005, we no longer received deliveries, similar to a number of other customers. At the start of 2005, we had already lowered the priority rating of this supplier. Although fewer modules than originally planned were delivered, the strategically significant major project in Miegersbach was completed on time. The modules outstanding from the supply agreement are to be delivered in 2006.

We also expanded the inverter business by closing framework agreements with SMA and Fronius, both market leaders, in 2005.

The procurement and purchasing departments have been reintegrated into the organisation structure and new staff has been hired. We were able to win the head of global procurement of a large international energy company as our new department manager. With his long-standing experience in procurement, we intend to build up this area intensively and expand our manufacturer portfolio.

6. RESEARCH AND DEVELOPMENT

As the Phönix SonnenStrom Group does not originally operate as a manufacturer of modules or inverters, our development activities are concentrated primarily on systems technology, in particular on assembly frames for on-roof systems and green-field plants, as well as efficient assembly procedures in power plant construction and project management.

In 2005, the "Tecto-Sun" assembly system for slanting roof systems was developed by our specialists and brought to the market. The protected utility patent green-field assembly system was adapted to the use of frameless modules.

Furthermore, optimisation of the components released potential for cutting costs.

The introduction of custom cable harnesses in power plant construction lowered the assembly costs and reduced error potential at the same time.

The Phönix Group is in constant dialogue with module and inverter manufacturers with the aim of lowering costs for turn-key photovoltaic plants through product improvements. Based on our experience in assembly and our knowledge of market requirements, we deliver selective information on the respective product. The optimised combination of the components we use delivers competitive advantage for the company.

In the current financial year, alongside our aforementioned activities, there are plans to concentrate on adapting assembly frames and system components to the needs of targeted international markets. In addition, the development of our own products to reinforce our unique selling proposition is to be stepped. Special attention will be given to lowering system costs (BOS – Balance of System) of photovoltaic plants with thin film modules in 2006. In the process of building up our supplier network, particularly module manufacturers (both crystalline and thin film), additional efforts will be dedicated to carrying out tests, selection processes and investigating the long-term performance of modules.

7. EMPLOYEES

A good number of new jobs were created through the sharp growth of the Group in 2005. The number of employees rose from 49 at the start of the financial year to 62 by the end (excluding temporary and external staff). Including temporary and external staff, the number of people employed by the Phönix SonnenStrom Group came to 85 at year-end, which corresponds to 62.5 full-time positions.

Our employees are one of our key success factors. Their significance is also reflected by our personnel development programme. The aim of this programme is to develop measures tailored to the individual employee.

Back in the financial year 2004, a group-wide variable compensation system, based on the qualitative and quantitative agreement of individual goals, was introduced. Once the goals have been derived from the strategic objectives of the Group and agreed, the best possible alignment of all entrepreneurial activities and workflows, coupled with a highly motivated workforce, is guaranteed.

In offering this programme, the Phönix Group intends to bind young people to the company and, in the long-term, appoint employees to skilled positions from among its own ranks. The number of training apprenticeships offered is to be raised in the long-term and put on a broader basis with the training programme geared towards the profession of office clerk initiated last year.

Employees are encouraged and supported in building their own photovoltaic systems or participating in them.

8. ENVIRONMENT AND CORPORATE RESPONSIBILITY

The Phönix SonnenStrom Group sells products which contribute to environmental protection when they are used. Photovoltaic plants are quiet and do not emit harmful substances. During the life cycle of a photovoltaic system, ten times more energy is generated than is used in this process. Photovoltaic systems are thus able to make an important contribution to a future energy mix based on renewable energies.

In our construction work on large-scale photovoltaic power plants we comply with the standards of NABU, a German association for nature conservation, and the BSW (German solar industry federation). Our assembly systems for green-field plants do not need concrete foundations of any kind. Surfaces are thus not sealed and the ground can be used again after clean decommissioning of the plant.

Our forwarding partner is also concerned with conserving the environment as evident from the way he manages his business. He is, for instance, the operator of a large-scale photovoltaic plant and has had most of his truck fleet, with which

he makes deliveries for Phönix SonnenStrom plants, converted to bio diesel.

In daily business at the Phönix Group, strict attention is paid to environmental issues. For example, rubbish is carefully separated and disposed of. Office material and furniture is sourced from office equipment companies specialised in environmentally compatible products. Preference is given to local suppliers in the purchasing of everyday goods.

Along with the economical use of paper, the paper quality of all printed matter, for instance, the annual report and catalogues, is carefully selected. The paper is chlorine free bleached and is made of 80 percent recycled fibre. The manufacturers bear the seal of the Forest Stewardship Council (FSC) and guarantee that at least 30 percent of the new fibre comes from FSC forests.

New offices, which are located exclusively in historical buildings in line with the company philosophy, are, as far as possible, installed taking account of environmental aspects in construction so as to create a healthy office environment. The main warehouse of the Phönix SonnenStrom Group is heated with energy generated by a plant powered by wood chips and shavings.

To cover electricity consumption, Phönix SonnenStrom AG participated in the Waltenhofen solar power plant in 2004. The share taken over by Phönix SonnenStrom AG in this solar park generates more environmentally compatible photovoltaic electricity than the whole company can use.

On business trips the method of transport is selected according to ecological and economic criteria, with travelling by rail being the preferred option. When there are larger company events a bus is made available to transport the employees. For our shareholders we also arrange for public transport to and from the Annual General Meeting by offering them a free shuttle bus service from the nearest station.

In the selection of give-aways, important criteria are the material and longevity of the gifts. In 2005, one euro per Christmas card sent was donated to UNICEF.

Accessories for Phönix SonnenStrom plants are custom-made exclusively by a Caritas workshop staffed by disabled people in the area.

In 2005, the Phönix SonnenStrom Group committed itself to participating, also financially, in the "Germany has unlimited energy" initative.

9. OPPORTUNITIES AND RISK REPORT

9.1 Risk management system

The Phönix SonnenStrom Group has based its definition of "risk" on the German accounting standard (DRS) which sees risk as the possibility of negative future developments in the financial position of the company. Management is of the opinion that most risks also have inherent opportunities which can be turned to the advantage of the company.

The risk management system of the Group serves to identify, control and manage risks which occur. Above and beyond risks to the company as a going concern, activities, events and developments are recorded by the system if they could exert a significant influence on the success of the company's business in the future.

9.2 Specific risks / material risks and opportunities

At present, the Board of Directors does not consider that there are any major risks at the political level which could have a sustained impact on the market development. There is, however, a potential risk in Germany arising from changes in the framework conditions, such as an amendment to the German Renewable Energy Act 2007 / 2008. In addition, there are new government-subsidised programmes being drawn up worldwide and existing programmes being improved, such as those in Italy, Spain and California. This could compensate for any negative market trends in Germany as from 2008.

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 a photovoltaic plant becomes no longer economically viable because prices are too high, the worst case scenario being that the photovoltaic market in Germany stagnates or even declines.

The temporary global shortage of solar silicon, the most important raw material for the production of solar modules, and the ensuing problems of procuring solar modules is set to persist in and beyond the year 2006. The Phönix Group nonetheless anticipates a sharp increase in sales in the current year as well. The procurement of solar modules is becoming an increasingly important factor in securing the success of the Group and achieving its growth targets.

The shortage of silicon strengthens the bargaining power of module manufacturers in negotiations with the Group. On the one hand, price increases have to be absorbed which, under certain circumstances, cannot be fully passed onto the customer as before and, on the other, the Group is partly forced to effect unsecured part-pre-payments in the context of new supplier relationships in order to secure a sufficient supply of solar modules. This can constitute a risk up until the point when the ownership of the merchandise finally passes to the Group.

The shortfall in solar silicon is favourable to an accelerated introduction of thin film modules in the market. The Phönix Group has positioned itself strategically in this segment in recent years with the result that it has a competitive advantage over other players. But new technologies also harbour risks. The possibility of plant operators attempting to place a claim against the company in relation to guarantee issues cannot be entirely discounted. This risk is to be kept to a minimum by the careful selection of producers and manufacturers and ongoing quality assurance.

The current management of the Phönix SonnenStrom Group 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 Group its existence would be threatened.

This risk is actively reduced by broadening the management base and the concerted development of managers. 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 construction of large-scale photovoltaic power plants in Germany and abroad is one of the core competences of the Phönix Group. The sales volume in plant construction is currently growing at an above-average rate, especially abroad where there are plans to build a number of large-scale photovoltaic plants. The Phönix SonnenStrom Group is responsible for the full construction of large-scale plants. These activities also involve passing on component warranties and guarantees given by the manufacturer, in as much as is legally permissible. Warranty risks from assembly activities are increasingly passed on to the subordinate contractors and secured by the relevant guarantees. There can nonetheless be a higher risk from guarantee claims, in particular in power plant construction, which cannot be completely excluded. In the meantime, however, the Phönix Group has more than five years experience in this segment which is proof that the risks can be kept to a very low level through appropriate management and measures.

In the area of specialist wholesalers for components and systems in particular, the Phönix SonnenStrom Group 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 drop in the prices which companies can command on the market. This can have a considerable effect on the volume growth, sales revenues and the success of the Group. As, however, the shortfall in solar modules will prevent new competitors entering the market in the foreseeable future, the Group does not currently consider the risk to be high.

The activities of the Group may incur financial risk from changes in exchange rates. The Group uses forward exchange transactions to hedge against these risks.

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.

Moreover, the Phönix Group may be exposed to a number of other risks which vary, especially in the very dynamic market environment of photovoltaics, and which are currently not identifiable or have been assessed as low up until now.

In the period from 1999 to 2004, Phönix Projekt & Service AG initiated a total of twelve solar funds worth a total volume of EUR 8,574,875. These funds are managed by Phönix SonnenFonds Verwaltungs GmbH. These activities give rise to general prospectus liability claims vis-à-vis investors. The risks arise from the future yield of photovoltaic plants being lower and the costs higher than forecast. Since the fund was initiated the amount of the yield generated by each project has outperformed the forecast. There is no knowledge of prospectus liability claims or of pending claims having been asserted.

The Phönix SonnenStrom Group considers risk management to be opportunity management as well: Opportunities passed up are also risks which need to be analysed.

At an early stage and considerably before the advent of the shortfall in silicon as currently perceived, the Phönix Group began to investigate thin film modules and, for the first time in 2003, successfully introduced a new product on the German solar market in the form of the a-Si modules by Mitsubishi Heavy Industries. This product segment has been meanwhile extended to include the thin film modules of First Solar. The share of thin film modules in the total module volume had already risen to considerably more than 20 percent by 2005. The company has thus assumed a best-of-breed role in the German and European market which is increasingly being perceived as such. Through its remarkable preliminary work in the systems technology segment of thin film modules and its competence in the construction of solar power plants using thin film modules, the company has created a considerable competitive advantage for itself in the past years and thus a huge opportunity for the future.

Although the sales of the Group are mainly generated in euros, the stepping up of international business may give rise to currency risk which will be countered by using appropriate hedging instruments.

At the same time, the acquisition and building up of subsidiaries abroad harbours opportunities and risks for the Phönix SonnenStrom Group which could have an impact on the financial position of the company.

9.3 Overall risk / going concern risk

Taking a comprehensive view of the overall risk situation of the Group it becomes evident that the risks are restricted and manageable and that they do not constitute a threat to the Group as a going concern. From today's standpoint, there are no identifiable risks which could cause a near term risk to the Group as a going concern.

10. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

As per 1 January 2006, the Phönix SonnenStrom Group acquired a strategic participation of 49 percent in Renewable Energies Development 2002 S.r.l. (RED 2002), an Italian systems integrator headquartered in Rome. Part of the agreement includes the option of raising the participation to up to 75 percent. The Phönix Group will pursue its activities in Italy mainly through this participation.

RED 2002 was founded in the year 2001 and will be managed by three directors in future: Domenico A. Inglieri, Piero Rossetti and Antonio Ruta. Domenico Inglieri and Piero Rossetti have gained long-standing experience through their work in international oil companies. In addition, Domenico Inglieri was on the Board of Directors of the Italian solar energy association GIFI where he played an influential role in discussions with government agencies on the preparation of the Italian decree.

In February, the Phönix SonnenStrom Group closed its first module supply contract with a Chinese module manufacturer. Access to Chinese manufacturers is considered as a strategically important success as Management is convinced that the Chinese manufacturing market will gain importance in the years ahead and could overtake Japan and Europe in terms of its growth rate.

11. FORECAST

Economic growth in Germany and abroad promises to be somewhat higher in 2006 as compared with the previous year. In the euro zone, it could come to just under 2 percent and in Germany to around 1.5 percent. In the EMU countries, 2007 is likely to see total economic activity grow moderately again by around 1.8 percent.

In Germany, premature buying in the run up to the VAT increase planned for 2007 and a moderate stabilisation of the labour market situation will have an initially positive effect. It is, however, highly unlikely that the German economy will improve substantially and sustainedly in 2006. The GDP growth rate in 2007 is therefore expected to drop again to an estimated 1.0 percent.

The global shortage of silicon will continue to determine growth in the photovoltaic sector in 2006 as well and beyond. EPIA sets growth at around 15 percent as compared with 2005 to 1,320 MWp in 2006. In the year 2007, growth is expected to accelerate by 26 percent to 1,655 MWp. The change in 2006 will be attributable to the successful use of thinner wafers and cells in crystalline technology (an average of 240 micrometres as opposed to a former 300 micrometres), in the increase in module efficiency (up from an average 14.5 percent in 2004 to an average 15 percent in 2005) and faster market growth enabled by new facilities for the production of thin film modules. From 2007 onwards, the first quotas from ramping up the production capacities of solar silicon should be available.

Owing to the pace of demand, above all in the new markets in and outside Europe, the Board of Directors expects the silicon module shortfall to persist in 2008 as well and in the years after.

The Phönix Group intends to counteract this potential shortage by expanding its supplier base in both crystalline and thin film products. The share of thin film modules in the product portfolio may well grow to over 30 percent in 2006. The existing supply agreements, partly concluded in the previous year, serve to secure sales planning to date.

The internationalisation of business has priority in the further growth of the Group. Whereas the share in international business is to be raised to 50 percent by 2010, a growth of at least 10 percent in this share has been targeted in 2006. Promising markets, initially in southern Europe, are to be developed by founding subsidiaries or participating in other companies.

The Power Plants segment which, up until now, has successfully built solar power plants in Germany, is in the process of negotiating the construction of large-scale plants in a number of European countries. The conclusion of the first agreements and ensuing realisation are expected for 2006.

Sulzemoos, 10 March 2006
Phönix SonnenStrom Aktiengesellschaft
The Board of Directors

Dr. A. Hänel	M. Bächler	Dr. M. Cameron
(CEO and Chairman of the Board of Directors)	(Chief Technology Officer)	(Chief Operating Officer)

Strong performance

The rapid growth of Phönix SonnenStrom AG was based on sound financial foundations. Along with a sharp increase in total sales and earnings per share, a positive cash flow from operating activities was disclosed in 2005.

>> Increase of 65 % to EUR 111.12 million in total sales

>> Increase of 129 % to EUR 6.1 million in the sales in international markets

>> Increase of 20 % to EUR 68 million in the sales of the Components & Systems segment, which is 66 % of group sales

>> Increase of 133 % to EUR 38 million in the sales of the Power Plants segment, which is 34 % of group sales

>> Earnings per share almost trebled, to EUR 0.92 up from EUR 0.34

Consolidated Income Statement

for the financial year from 1 January 2005 until 31 December 2005 pursuant to IFRS

	Note	2005 in €	2004 in €
Sales revenue	(9)	111,115,803.11	67,348,390.38
Changes in product inventory		– 1,000.00	– 14,200.00
Other operating income	(10)	1,167,097.40	194,412.95
Cost of materials		95,115,688.48	58,695,290.66
Personnel expenses	(11)	3,702,412.24	2,891,027.28
Depreciation and amortisation		252,623.60	264,200.57
Other operating expenses	(12)	5,548,328.13	3,203,519.51
Operating result		**7,662,848.06**	**2,474,565.31**
Result of associated companies		15,089.23	– 910.69
Financial result		**160,497.57**	**148,749.58**
Consolidated net profit before tax		7,838,434.86	2,622,404.20
Income tax	(13)	2,888,465.16	920,301.77
Consolidated net income for the year		**4,949,969.70**	**1,702,102.43**
Loss carryforward		– 2,530,747.72	– 4,232,850.15
Consolidated balance sheet profit (2004: loss)		**2,419,221.98**	**– 2,530,747.72**
Average outstanding shares in units		5,372,945	5,025,000
Undiluted and diluted earnings per share in €	(14)	0.92	0.34

Consolidated Balance Sheet

for the financial year from 1 January 2005 until 31 December 2005 pursuant to IFRS

Assets	Note	31/12/2005 in €	31/12/2004 in €
Fixed assets			
Intangible assets	(15)	362,536.79	462,040.78
Goodwill	(16)	272,383.74	272,383.74
Property, plant and equipment	(17)	511,502.54	510,638.60
Investments in associated companies	(18)	514,032.74	529,194.31
Other participations	(19)	13,666.63	17,221.82
Long-term receivables	(20)	450,000.00	0.00
Deferred tax assets	(13)	4,667.34	810,960.00
Other assets	(23)	45,616.48	7,170.47
Total fixed assets		2,174,406.26	2,609,609.72
Current assets			
Inventories	(21)	3,834,487.02	7,270,962.70
Accounts receivable	(22)	7,496,062.74	4,868,506.14
Other financial assets	(23)	2,757,133.57	2,051,890.10
Tax assets	(13)	0.00	22,308.33
Cash and cash equivalents	(24)	20,069,395.51	3,374,045.94
Total current assets		34,157,078.84	17,587,713.21
Total assets		**36,331,485.10**	**20,197,322.93**

Liabilities & shareholders' equitiy	Note	31/12/2005 in €	31/12/2004 in €
Equity	(25)		
Subscribed capital		5,525,000.00	5,025,000.00
Capital reserve		13,731,333.02	7,950,000.00
Retained earnings		1,568,266.79	1,568,266.79
Balance sheet profit (2004: loss)		2,419,221.98	– 2,530,747.72
Total equity		23,243,821.79	12,012,519.07
Long-term liabilities and provisions			
Long-term financial liabilities	(26)	166,562.81	221,130.75
Long-term provisions	(27)	252,505.60	173,083.96
Deferred tax liabilities	(13)	26,799.00	11,381.77
Total long-term liabilities and provisions		445,867.41	405,596.48
Current liabilities and provisions			
Current financial liabilities	(26)	54,567.94	1,292,332.98
Trade creditors	(28)	7,012,011.04	4,845,100.04
Other financial liabilities	(29)	742,597.58	656,687.56
Other non-financial liabilities	(29)	2,217,576.11	482,703.61
Short-term provisions	(27)	384,437.23	238,383.19
Tax liabilities	(13)	2,230,606.00	264,000.00
Total current liabilities and provisions		12,641,795.90	7,779,207.38
Total liabilities & shareholders' equitiy		**36,331,485.10**	**20,197,322.93**

Consolidated Statement of Changes in Equity

for the financial years from 1 January 2004 until 31 December 2005 pursuant to IFRS

	Subscribed capital in T €	Capital reserve in T €	Retained earnings in T €	Consolidated balance sheet profit/loss in T €	Total in T €
As per 1 January 2004	5,025	7,950	1,568	– 4,233	10,310
Consolidated net income in 2004	–	–	–	1.702	1,702
As per 31 December 2004	5,025	7,950	1,568	– 2,531	12,012
Capital increase in 2005	500	5,810	–	–	6,310
Expenses incurred by the capital increase (IAS 32.38)	–	– 29	–	–	– 29
Consolidated net income in 2005	–	–	–	4,950	4,950
As per 31 December 2005	**5,525**	**13,731**	**1,568**	**2,419**	**23,243**

Explanations on the Consolidated Statement of Changes in Equity can be found under Note (30).

Consolidated Cash Flow Statement

for the period starting 1 January 2005 and ending 31 December 2005 pursuant to IFRS

	2005 in T €	2004 in T €
Consolidated net income before tax	7,838	2,622
Depreciation of fixed assets	253	264
Other non-cash income and expenses		
(incl. result from associated companies)	– 232	10
Profits / losses from the disposal of property, plant and equipment	– 1	– 3
Financial income	– 274	– 190
Interest expenses	114	41
Sub-total	**7,698**	**2,744**
Increase / decrease of accruals and provisions		
(net of discounting effects and non-cash releases)	411	345
Increase / decrease of inventories	3,436	– 3,939
Increase / decrease of trade receivables	– 2,633	– 2,265
Increase / decrease of other assets	– 743	– 1,818
Increase / decrease of long-term receivables	– 450	0
Increase / decrease of liabilities	4,045	3,634
Funds generated by operating activities	**11,764**	**– 1,299**
Interest paid	– 51	– 25
Taxes on income paid / refunded	– 77	70
Cash flows from operating activities	**11,636**	**– 1,254**
Withdrawals from associated companies	30	0
Proceeds from disposals of property, plant and equipment	5	30
Purchase of intangible assets and property, plant and equipment	– 155	– 249
Acquisition of non-current financial assets	0	– 547
Cash flows from investing activities	**– 120**	**– 766**
Cash receipts from issue of capital (capital increase minus costs of T € 29		
set off against capital reserve)	6,281	0
Receipts / Payments in connection with financial liabilities	– 1,292	1,513
Interest received	190	142
Cash flows from financing activities	**5,179**	**1,655**
Net changes of cash	**16,695**	**– 365**
Cash funds at the beginning of period	3,374	3,739
Cash funds at the end of period	20,069	3,374
Changes of cash funds	**16,695**	**– 365**

Explanations on the Cash Flow Statement can be found under Note (31).

The path ahead

International interest and strong growth: all arguments in favour of more solar electricity

The path ahead

In the financial year 2005, consolidated financial statements were drawn up for the first time pursuant to internationally recognised accounting standards. Switching accounting to these standards fulfils the requirements of capital markets worldwide.

>> Switching of the consolidated financial statements to the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS)

>> First-time reporting for the core business segments of Power Plants and Components & Systems

>> Better basis of comparability and enhanced transparency by way of detailed explanations

>> Facilitation of cross-border business relations and international expansion

Notes to the Consolidated Financial Statements

of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, drawn up under IFRS for the financial year 2005

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

The Phönix SonnenStrom Group (hereinafter also called the Phönix Group) is a group comprising three companies with a workforce of currently around 85 (employees and external staff).

The parent company of the Group is Phönix SonnenStrom Aktiengesellschaft (hereinafter called Phönix SonnenStrom AG) with headquarters in Hirschbergstraße 8, 85254 Sulzemoos, Germany.

The business purpose of the parent company is the development, production, sale and distribution and the operation and management of components and systems for generating energy from renewable energy sources, as well as the assembly and maintenance of these systems. The subsidiaries operate in the planning and development of photovoltaic funds and in the role of a partnership company with limited liability.

(2) INFORMATION ON ACCOUNTING STANDARDS

Owing to having twice in succession exceeded the size classification as defined under Section 293 of the German Commercial Code (HGB), Phönix SonnenStrom AG was obliged to draw up consolidated financial statements as at 31 December 2005 for the first time.

As the shares of Phönix SonnenStrom AG are traded on the unregulated market there is no obligation to prepare the consolidated financial statements pursuant to international accounting standards. Phönix SonnenStrom AG has nonetheless availed itself of the option defined under Section 315a German Commercial Code and has drawn up its consolidated financial statements pursuant to the rules laid down by the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the London-based International Accounting Standards Board (IASB).

All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid for the financial year 2005 and the earlier interpretations of the

Standing Interpretations Committee (SIC), as well as the additional rules under Section 315a of the German Commercial Code have been adhered to in the consolidated financial statements presented in this report. The consolidated financial statements comprise the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements. In line with the regulations laid down in Section 315a of the German Commercial Code, a management report on the Group has also been prepared.

The consolidated financial statements have been prepared in euro. If another measurement unit other than EUR is used, T EUR (thousands of euros) for instance, this will be indicated by the denomination.

(3) REPORTING DATE

The balance sheet date of the companies included in the consolidated financial statements is respectively 31 December of the year. The accounting period valid for the financial statements is the period starting 1 January and ending 31 December.

(4) DEADLINE FOR RELEASE

The financial statements are to be released on 8 May 2006. Approval will be given by the Board of Directors.

(5) PRINCIPLES OF CONSOLIDATION

Group of consolidated companies
All subsidiaries were included in the consolidated financial statements of Phönix SonnenStrom AG pursuant to the principles of IAS 27.

Alongside the parent company, the following companies were consolidated accordingly:

Name	Headquarters	Participation	Duration of participation
Phönix Projekt & Service Aktiengesellschaft	85254 Sulzemoos Hirschbergstraße 8 Germany	100 %	01/01/ – 31/12/2005
Phönix SonnenFonds Verwaltungs GmbH	85254 Sulzemoos Hirschbergstraße 8 Germany	100 %	01/01/ – 31/12/2005

The first-time consolidation of the companies included was carried out on the respective dates of acquisition, namely on 15 March 2002 (Phönix Projekt & Service Aktiengesellschaft) and 12 July 2002 (Phönix SonnenFonds Verwaltungs GmbH).

For reasons of materiality, eight limited partnerships in which Phönix Projekt & Service Aktiengesellschaft holds a 100 percent stake were not included in the consolidated financial statements as they are so-called pool limited partnerships which do not operate in their own capacity. These non-consolidated investments are shown in the consolidated balance sheet under the "Other participations" item.

A number of limited partnerships of which Phönix SonnenFonds Verwaltungs GmbH (without capital participation) is general partner were not consolidated, as the general partner does not exercise a controlling influence on the company owing to regulations laid down in the articles of association.

Information on the non-consolidated companies:

1. Non-consolidated pool companies

	Total assets 31/12/2005 (GCC*) in T €	Total liabilities 31/12/2005 in T €	Income 2005 (GCC) in T €	Result for the period 2005 (GCC) in T €
Phönix SonnenFonds GmbH & Co. KG B4	0.5	0.5	0	0
Phönix SonnenFonds GmbH & Co. KG B5	0.5	0.5	0	0
Phönix SonnenFonds GmbH & Co. KG B6	0.5	0.5	0	0
Phönix SonnenFonds GmbH & Co. KG B7	0.5	0.5	0	0
Phönix SonnenFonds GmbH & Co. KG D4	0.6	0.6	0	0
Phönix SonnenFonds GmbH & Co. KG D5	0.6	0.6	0	0
Phönix SonnenFonds GmbH & Co. KG D6	0.6	0.6	0	0
Phönix SonnenFonds GmbH & Co. KG D7	0.6	0.6	0	0

* German Commercial Code (HGB)

2. Non-consolidated limited partnerships of which Phönix SonnenFonds Verwaltungs GmbH is general partner

	Total assets 31/12/2005 (GCC*) in T €	Total liabilities 31/12/2005 in T €	Income 2005 (GCC) in T €	Result for the period 2005 (GCC) in T €
Phönix SonnenFonds GmbH & Co KG A1/2 West	894	894	88	10
Phönix SonnenFonds GmbH & Co. KG A1/2 Ost	894	894	87	8
Phönix SonnenFonds GmbH & Co. KG A3/4 West	894	894	87	9
Phönix SonnenFonds GmbH & Co. KG A3/4 Ost	894	894	84	7
Phönix SonnenFonds GmbH & Co. KG A5/6 West	894	894	86	8
Phönix SonnenFonds GmbH & Co. KG A5/6 Ost	893	893	84	7
Phönix SonnenFonds GmbH & Co. KG D1	868	868	85	– 22

* German Commercial Code (HGB)

In application of IAS 32.18b, the capital accounts of the shareholders of the limited partnership companies have been included in the total liabilities.

The parent company holds a stake of 31.2 percent in Phönix SonnenFonds GmbH & Co. KG B1 (shares and voting rights) which has been taken into account as part of an equity valuation in the consolidated financial statements.

Consolidation principles

Phönix SonnenStrom AG was obliged to prepare consolidated financial statements as at 31 December 2005 for the first time. All rules of IAS and IFRS valid on 31 December 2005 were adhered to in the consolidated financial statements presented in this report.

To this end, the individual accounts drawn up under German accounting standards

were converted to IAS and IFRS on 1 January 2004. All the resulting differences in value were recorded under retained earnings as part of equity without affecting the result. The individual balance sheets as at 31 December 2004 and 31 December 2005 were subsequently converted to IAS and IFRS and included in the consolidated financial statements. The figures released for previous years are thus comparable with the current amounts.

A presentation of entries adjusted to comply with the rules of IAS and IFRS as per 1 January 2004 is shown under Note (25) Equity.

Capital consolidation was carried out according to the purchase method. There were no hidden reserves on the assets side or hidden debt on the liabilities side at the time of purchase. Accordingly, differences in amount were ascertained on the basis of the book values. Differences on the assets side between the cost of acquisition and pro rata equity of the companies purchased were disclosed as goodwill. There were no differences on the liabilities side.

As from the financial year 2005, no acquisitions or sales were made.

Consolidation of liabilities was carried out pursuant to IAS 27. In this process, accounts receivable and liabilities of the companies included in the consolidated financial statements were set off against each other.

The consolidation of expenses and income was carried out pursuant to IAS 27 whereby inter-group expenses and income were set off against each other.

There were no interim profits which had to be eliminated as at 31 December 2005.

The associated company is a German trading partnership formed under German law as a GmbH & Co. KG. For the purposes of consolidation, the annual financial statements drawn up in line with German tax regulations were converted to IFRS. Differences in recognition and measurement were taken account of as well as IAS 32.18b) in the corresponding auxiliary calculation.

Capitalised value was calculated by discounting the estimated surplus revenues at a rate of 5.53 percent after tax. As of 31 December 2005, the capitalised value came to EUR 1,521,424.01. The right to settlement of the shareholders came to EUR 1,634,969.31 as of the reporting date.

As, under the stipulations of the articles of association, the shareholders have a right to settlement in the amount of the book value of the pro rata equity, this was taken account of in the equity valuation.

The pro rata result from the equity valuation amounted to EUR 15,089.23 in the financial year 2005 (2004: EUR – 910.69). This amount is disclosed separately in the consolidated income statement under the "Result of associated companies" item. The holding in the associated company is shown separately in the consolidated balance sheet under "Investments in associated companies."

B. ACCOUNTING POLICIES AND VALUATION METHODS

(6) RECOGNITION OF PROFIT AND MANUFACTURING ORDERS

Recognition of profit
Sales revenue recognition is carried out upon the concluding of purchase orders with the delivery of goods (passage of risk), and upon the concluding of service contracts through acceptance by the commissioning party. Revenue from services provided is recognised upon completion of the work. Interest income is accrued, according to the outstanding loan amount and the applicable interest rate.

Manufacturing orders
In principle, work in progress is customer orders which have not been fully processed. Under IAS 11, manufacturing orders are to be valued using the percentage of completion method under certain circumstances. Accordingly, contract revenue is recognised as profit in the income statement in the period as and when work is completed. Income from fixed-price orders is also recognised as profit according to progress made and completion of work. Income is calculated for each order according to the percentage of the internal and external expenses incurred by the reporting date of the estimated total expense.

On the reporting date there were no long-term manufacturing orders.

(7) INDIVIDUAL ITEMS OF THE BALANCE SHEET

Intangible assets
Intangible assets acquired against payment are capitalised at their cost of acquisition pursuant to IAS 38 and are written down on a scheduled straight-line basis over their expected useful life. As regards the trademark right comprised under this position, there was no indication of a possible impairment.

Goodwill
At the end of the financial year an impairment test was carried out to ascertain the value in use of the goodwill recognised in the balance sheet. No adjustment was necessary. Under the application of IFRS 3, goodwill is not written down on a scheduled straight-line basis.

Property, plant and equipment
Property, plant and equipment are valued at their cost of acquisition minus scheduled straight-line depreciation pursuant to IAS 16.

Leasing
In the case of the exclusively operating leasing agreements, the leasing instalments and payments are recognised directly as expenses in the income statement according to IAS 17.

Other participations
Other participations are valued at the cost of acquisition plus the ancillary costs of acquisition.

Inventories
Inventories are capitalised at their cost of purchase, plus the ancillary costs of purchase and minus reductions in the purchase price, pursuant to IAS 2.

The cost of acquisition of assets disclosed under merchandise was calculated under the assumption that the assets first bought will be those first used (Fifo method).

Items with reduced marketability are written down to the lower net selling price.

Cost of debt is booked as an expense at the time when it occurs.

Trade and other receivables
Financial instruments are essentially allocated to the "Loans and receivables" category.

The purchase of financial assets customary to the market is generally recognised on the settlement date, i.e. capitalisation is carried out on the day on which the company takes receipt of the financial asset. On this date, the liability resulting from the purchase is concurrently to be recognised on the liabilities side.

Trade and other receivables are always valued at their nominal value. Provisions for losses on individual accounts are formed if there are receivables where there is a high default probability. In addition, the credit, interest rate and discounting risk was taken into account in the valuation.

Long-term receivables have not been discounted as the rate of interest customary in the market is given.

Cash and cash equivalents
Cash and cash equivalents are allocated to the "available for sale financial assets" category and recognised at the attributable fair value which, in relation to cash and cash equivalents in euro, corresponds to the nominal value. There were no securities on the reporting date. The securities held in the previous year's balance sheet under this item and allocated to the "held for trading" category were sold in the financial year.

Provisions
Other provisions were recognised according to IAS 37 if, owing to a past event, an actual legal or de facto obligation exists where resources with economic benefit are likely to be used to fulfil this obligation and a reliable estimate of the amount of the obligation is possible. Other provisions comprise all identifiable obligations. Valuation is carried out based on the probable amount.

For known loss, specific warranty provisions are set up in the amount of the costs which are most likely to be incurred. Owing to the existence of numerous potential other obligations, transfers were made to additional provisions using the experience of the past as a basis.

Other provisions were formed for all identifiable risks and uncertain obligations in the amount of their probable occurrence. Long-term provisions were discounted at a rate of 5.5 percent p.a.

Liabilities
Liabilities are always carried at their repayment amount.

Liabilities for outstanding costs and for other obligations relating to business are valued on the basis of the anticipated performance still to be fulfilled.

Deferred Taxes
Deferred tax assets and liabilities are recognised according to IAS 12 for temporary differences between the carrying amount of an asset or liability and its tax base, for consolidation transactions with concurrent effects on net income and unused tax loss carryforwards. Deferred tax assets are only taken account of in as much as the related reductions in tax are likely to occur. Deferred tax on the assets side on loss carryforwards were fully utilised in the financial year 2005.

The valuation of deferred taxes was carried out as per the reporting date using the then valid tax rate of 35.98 percent.

(8) OTHER ACCOUNTING POLICIES AND VALUATION METHODS

Foreign currencies
Transactions in foreign currencies are recorded at the exchange rates valid when the business was transacted. Monetary assets and liabilities, the value of which is shown in a foreign currency, were converted to euros as per the reporting date. Price gains and losses were recorded in the income statement.

In the process of consolidation, no currency translation was necessary as exclusively domestic subsidiaries, which prepare their financial statements in euros, were included in the group of consolidated companies.

Derivative financial instruments and hedging transactions
In hedging existing or planned deals the only derivative instruments Phönix SonnenStrom AG uses are forward exchange transactions.

As per the balance sheet date, there was a forward exchange transaction worth EUR 5,000,000.00 relating to the purchase of JPY 692,000,000.00 and concluded on 28 February 2006. There were no underlyings on the reporting date. The forward exchange transaction was classified as "held for trading" and, in accordance with IAS 39, recognised at fair value. On the reporting date, the attributable fair value was EUR 4,987,027.96. The loss, which amounted to EUR 12,972.04, was recorded in the income statement.

Forward exchange transactions are concluded exclusively for hedging purposes.

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

The consolidated income statement was prepared in accordance with the „total cost"-type of short-term accounting.

(9) SALES REVENUE

Sales by business segment

	2005 in T €	2004 in T €
Components & Systems	73,206	51,094
Power Plants	37,830	15,965
Other	80	289
	111,116	**67,348**

(10) OTHER OPERATING INCOME

	2005 in T €	2004 in T €
Income from damage compensation payments	98	41
Charging on of costs	11	30
Non-monetary compensation	57	28
Income from the release of provisions	225	13
Income from subsidy payments for EU projects	6	12
Electricity income	462	0
Income from the write-back of provisions	129	0
Other	179	70
	1,167	**194**

The income from subsidy payments for EU projects was attributable to monitoring work carried out for photovoltaic plants.

Electricity income is attributable to payments for PV-generated electricity.

(11) PERSONNEL EXPENSES

Expenses for old-age provisions totalled T EUR 3 and resulted exclusively from insurances arranged directly with insurance companies for employees. There are no employers' pension commitments within the Group.

The average number of employees in the respective financial year was as follows:

	2005	2004
Full-time employees	51	44
Temporary staff	20	14
	71	**58**

(12) OTHER OPERATING EXPENSES

	2005 in T €	2004 in T €
Administration costs	991	949
Sales costs	2,267	1,049
Operating costs	2,190	1,147
Other expenses	100	59
	5,548	**3,204**

Expenses arising from operating leasing agreements came to T EUR 56 in the financial year 2005 (2004: T EUR 12).

(13) INCOME TAX

The actual and deferred tax income and expenses are as follows:

	2005 in T €	2004 in T €
Actual tax	2,066	247
Deferred tax		
Income from the formation of deferred tax assets on loss carryforwards	0	– 37
Expenses from the write-back of deferred tax claims due to the use of loss carryforwards	811	726
Other deferred tax income	– 14	– 16
Other deferred tax expenses	25	0
	822	673
	2,888	**920**

Derivation from calculated to actual income tax expenses:

	2005 in T €	2004 in T €
Earnings before tax	**7,838**	**2,622**
Computed tax rate: 35.98 %		
Calculated income tax	2,820	943
Changes in the calculated compared with actual tax expenses		
Income tax unrelated to the accounting period	25	0
Tax effect from non-deductable expenses	10	10
Tax expenses / income due to differences in the tax base	33	– 33
Tax expenses	**2,888**	**920**

The income tax calculated is made up of business tax (13.04 percent), the application of the corporate tax rate (25 percent) and the solidarity tax surcharge (5.5 percent of the corporate income tax), minus 3.44 percent from the business tax eligible for reduction in relation to the business tax base of a total of 35.98 percent on earnings before tax. This tax rate is also used in the valuation of deferred tax.

Deferred taxes on the assets and liabilities side are allocated to the following balance sheet items:

	2005 in T €	2004 in T €
Deferred tax assets		
Loss carryforwards	0	811
Short-term financial instruments	5	0
	5	811
Deferred tax liabilities		
Current assets	0	9
Deferred tax items in the financial statements at company level	2	2
Valuation differences in the financial statements at company level	25	0
	27	**11**

In the first time preparation of the consolidated financial statements under IFRS as at 1 January 2004, deferred tax assets amounting to T EUR 1,518 and deferred tax liabilities amounting to T EUR 17 were credited or debited to equity.

In the wake of setting off the costs of the capital increase in the financial year 2005 without affecting profit, T EUR 19 were charged to equity.

The actual income tax still payable as per the reporting date amounted to T EUR 2,231 (2004: T EUR 264).

14) EARNINGS PER SHARE (EPS)

	2005	2004
Net income for the year (in T €)	4,950	1,702
Average number of outstanding shares (in units)	5,372,945	5,025,000
Undiluted and diluted earnings per share (in €)	**0.92**	**0.34**

Earnings per share is calculated pursuant to IAS 33, taking the consolidated profit after tax and the annual average number of shares outstanding. As per 31 December 2005, there was approved capital of T EUR 2,763 which was, however, not included in the calculations as no dilution effect arose in the current period. The diluted EPS and the undiluted EPS are thus the same.

The 500,000 shares issued as part of the capital increase in the financial year 2005 have been taken account of pro rata temporis. The outstanding shares have thus risen from 5,025,000 at the start of the period to 5,525,000 at the end of the period.

The consolidated net income generated for the year 2005 has been set off against accrued loss. In line with the proposal by the Board of Directors, no payment of dividend is to be made by Phönix SonnenStrom AG in 2005.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(15) INTANGIBLE ASSETS

For the development of book values, reference is made to the consolidated fixed asset movement schedule (see next page).

Intangible assets have a useful life of between three and five years. They are written down on a straight-line basis over their useful lives.

Scheduled depreciation is shown in the income statement under the depreciation and amortisation item. Unscheduled amortisation was not carried out in the financial year 2005.

Intangible assets	Book value as at 31/12/2005 in T €	Remaining useful life
"Phönix" trademark right	344	11 years
Software licenses	18	4 years

(16) GOODWILL

Goodwill was generated in the process of the first-time consolidation of Phönix Projekt & Service AG, the purchase of which took place on 15 March 2002.

In application of IFRS 3, no scheduled amortisation was carried out on goodwill. The value in use will be reviewed in the course of the annual impairment test. To this end, the book value is compared with the capitalized value. The capitalised value is calculated using the discounted cash flow method whereby the expected cash flows as per the current five-year plan are discounted by the weighted cost of capital of 8 percent. There is an impairment if the capitalised value is lower than the book value.

In the financial year 2005, no unscheduled amortisation was carried out.

Fixed Asset Movement Schedule

for the financial year from 1 January to 31 December 2005
Consolidated Financial Statements pursuant to IFRS

	Cost of acquisition/production				
	Status 01/01/2005 in €	Additions financial year in €	Disposals financial year in €	Status 31/12/2005 in €	Status 01/01/2005 in €
Intangible assets	785,779.59	11,935.00	0.00	797,714.59	323,738.81
Goodwill	272,383.74	0.00	0.00	272,383.74	0.00
Property, plant and equipment	880,924.69	143,592.83	29,507.03	995,010.49	370,286.09
Investments in associated companies	530,105.00	0.00	30,250.80	499,854.20	910.69
Other participations	17,221.82	0.00	3,555.19	13,666.63	0.00
Total fixed assets	**2,486,414.84**	**155,527.83**	**63,313.02**	**2,578,629.65**	**694,935.59**

Accumulated depreciation and amortisation					
Result from equity valuation in €	Additions financial year in €	Disposals financial year in €	Status 31/12/2005 in €	Book value 31/12/2005 in €	Book value 31/12/2004 in €
0.00	111,438.99	0.00	435,177.80	362,536.79	462,040.78
0.00	0.00	0.00	0.00	272,383.74	272,383.74
0.00	141,184.61	27,962.75	483,507.95	511,502.54	510,638.60
– 15,089.23	0.00	0.00	– 14,178.54	514,032.74	529,194.31
0.00	0.00	0.00	0.00	13,666.63	17,221.82
– 15,089.23	**252,623.60**	**27,962.75**	**904,507.21**	**1,674,122.44**	**1,791,479.25**

(17) PROPERTY, PLANT & EQUIPMENT

For the development of book values, reference is made to the consolidated fixed asset movement schedule.

Depreciation is done on a straight-line basis pro rata temporis over the period of the customary useful life. The useful life is between 3 and 10 years.

(18) INVESTMENTS IN ASSOCIATED COMPANIES

As an associated company, Phönix SonnenFonds GmbH & Co. KG B1 was valued according to the equity method. The valuation was carried out on the basis of the individual financial statements converted to IFRS.

Based on the individual financial accounts converted to IFRS, the company disclosed sales of T EUR 181, earnings before tax of T EUR 64, liabilities (including provisions and the right to settlement of the shareholders) of T EUR 1,815 and total assets of T EUR 1,815.

In the scope of the equity valuation in 2005, the participation value was assigned a pro rata profit of T EUR 15 (2004: loss of T EUR – 1).

In connection with financial liabilities entered into (see Note (26)), the shares in Phönix SonnenFonds GmbH & Co. KG B1 were pledged as security to the lending bank.

(19) OTHER PARTICIPATIONS

Other participations comprise the cooperative share in a bank, a stake of 0.2 percent in a fund limited partnership as well as eight stakes of 100 percent in limited partnerships which are not operational (pool companies) and which were not included in the consolidated financial statements owing to their lack of materiality.

(20) LONG-TERM RECEIVABLES

This position comprises a purchase-money claim deferred until 31 December 2023. Interest will be charged at 5.5 percent p.a. until 31 December 2015 and, as from 1 January 2016, at 6 percent p.a. until full payment.

(21) INVENTORIES

The table below is a breakdown of inventories:

	31/12/2005 in T €	31/12/2004 in T €
Merchandise	3,870	7,271
Depreciation	– 36	0
	3,834	**7,271**

The book value of the inventories as per 31 December 2005, recognised at the net selling price, amounted to T EUR 77.

In respect of the inventories disclosed, there are only contingent claims on ownership customary to purchase orders.

(22) ACCOUNTS RECEIVABLE

The chart below is a breakdown of accounts receivable:

	31/12/2005 in T €	31/12/2004 in T €
Receivables / Germany	7,578	2,688
Payments on account / Germany	0	2,057
	7,578	4,745
Receivables / international	59	34
Payments on account	0	260
	59	294
Sub-total	**7,637**	**5,039**
Minus general provisions for doubtful accounts	– 141	– 170
	7,496	**4,869**

The attributable fair value of the accounts receivable corresponds to the book values. The general provisions have been set up as an allowance for uncollectible accounts.

(23) OTHER FINANCIAL ASSETS

Other financial assets are divided among the following balance sheet items:

	31/12/2005 in T €	31/12/2004 in T €
Short-term financial assets	2,757	2,052
Long-term assets	46	7
	2,803	**2,059**

Short-term other financial assets are as follows:

	31/12/2005 in T €	31/12/2004 in T €
Receivables from financial transactions	0	1.275
Supplier credits	394	339
Suppliers with debit balances	692	198
Prepayments	1,375	0
Other	296	240
	2,757	**2,052**

(24) CASH AND CASH EQUIVALENTS

	31/12/2005 in T €	31/12/2004 in T €
Securities	0	779
Cash in hand	2	2
Credit balances	20,067	2,593
	20,069	**3,374**

The securities disclosed in 2004 were assigned to the "held for trading" category pursuant to IAS 39 and marked to market. In the financial year, price gains of T EUR 7 (2004: T EUR 2) were realised from the sale of securities.

To secure performance bonds granted by a bank and an insurance for Phönix SonnenStrom AG, a credit balance of T EUR 224 (2004: T EUR 436), included in the position, was pledged as security.

Cash in hand and bank holdings in a foreign currency were valued at the exchange rate on the reporting date. Valuation differences between the cost of acquisition and the fair value are recorded under other financial income or other financial expenses, with the concurrent effect on net income.

The interest rates in the financial year 2005 were between 1.9 percent and 2.3 percent.

(25) EQUITY

As regards the presentation of changes in equity, we refer to the Statement of changes in equity.

As per 31 December 2005, the share capital came to T EUR 5,525 (2004: T EUR 5,025), divided up into 5,525,000 (2004: 5,025,000) no-par-value bearer shares and, as per the reporting date of the consolidated financial statements, was fully paid up.

On the reporting date, the approved capital of the company came to T EUR 2,763 (2004: T EUR 2,513) pursuant to the resolution of the Annual General Meeting held on 29 July 2005.

The capital reserve was derived from share premium amounts in connection with the capital increase. In the reporting year, the capital reserve was reduced by expenses incurred by the capital increase carried out in the financial year, minus the apportioned income tax, pursuant to IAS 32.38.

The revenue reserves comprise exclusively adjustments to entries made in connection with the first-time drawing up of the consolidated financial statements under IFRS.

A statement of derivation showing the equity disclosed in the consolidated financial statements under the German Commercial Code switched to equity shown under IFRS is not possible because the Phönix Group had not previously prepared consolidated financial statements as there were no legal requirements to do so.

In the first-time preparation of consolidated financial statements under IFRS as at 1 January 2004, adjustment entries were carried out which serve as a basis for the derivation of the consolidated individual financial statements to comply with IFRS standards and are shown below:

Adjustment entries as per 1 January 2004	in T €
Elimination of deferred tax items (minus deferred tax effect)	31
Capitalisation of deferred tax on loss carryforwards	1,500
Discounting of long-term provisions	19
Revaluation of securities	18
	1,568

(26) FINANCIAL LIABILITIES

The financial liabilities are disclosed under the following balance sheet items:

	31/12/2005 in T €	31/12/2004 in T €
Long-term financial liabilities (residual term of more than 1 year)	166	221
Short-term financial liabilities (residual term of up to 1 year)	55	1,292
	221	**1,513**

This is an annuity loan of a bank which was divided up according to the due date of the instalment payments. The interest rate on the loan comes to 4.6 percent p.a.

(27) PROVISIONS

The table below is a breakdown of the provisions:

	As per 01/01/2005 in T €	Utilisation in T €	Release in T €	Compounding in T €	Transfer in T €	As per 31/12/2005 in T €
Long-term provisions						
Provisions for warranties	127	0	60	13	173	253
Other	46	0	51	5	0	0
	173	**0**	**111**	**18**	**173**	**253**
Short-term provisions						
Provisions for warranties	103	30	1	0	256	328
Litigation costs	17	7	10	0	0	0
Other	118	75	43	0	57	57
	238	**112**	**54**	**0**	**313**	**385**

The provisions for warranties have been set up for legal and contractual warranty obligations as well as for reasons of fair dealing in relation to customers.

(28) TRADE CREDITORS

Due to the short-term period of payment of the liabilities, they were shown in the balance sheet at the repayment amounts.

(29) OTHER LIABILITIES

Other liabilities disclosed were divided into financial and non-financial liabilities.

Liabilities disclosed under non-financial liabilities are those which were not contractually regulated between companies or which will not be settled by cash or financial assets.

The following is a breakdown of other liabilities:

	31/12/2005 in T €	31/12/2004 in T €
Other financial liabilities		
Personnel-related liabilities	600	291
Other	143	366
	743	**657**

Personnel-related liabilities are mainly employee bonuses and profit sharing.

	31/12/2005 in T €	31/12/2004 in T €
Other non-financial liabilities		
VAT liabilities	1,983	268
Liabilities from wage tax and social security	110	113
Personnel-related liabilities	125	102
	2,218	**483**

The personnel-related liabilities are arrears for holiday not taken and overtime.

E. OTHER NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(30) CHANGES IN CONSOLIDATED EQUITY

The revenue reserves disclosed derive exclusively from the first-time switching of the individual financial statements drawn up under the German Commercial Code to IFRS. Within the scope of the opening consolidated balance sheet as at 1 January 2004, there were valuation differences of T EUR 1,568 not affecting the result which, in particular, related to deferred tax assets on existing loss carryforwards.

(31) CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been drawn up in compliance with the standards laid down under IAS 7. The cash flow statement comprises the cash flow from operating activities, the cash flow from investment activities and the cash flow from financing activities. There were no changes in the group of consolidated companies. In as much as there were changes in cash and cash funds due to exchange rate fluctuations, these were shown separately.

The calculation of cash flows from operating activities was carried out according to the indirect method.

The cash and cash funds include cash and cash equivalents shown in the balance sheet (in 2004, including money market funds).

F. OTHER NOTES

(32) SEGMENT REPORTING

Business segments

The Group is currently divided up between the two segments of plant construction and commercial transactions. The main activities are allocated as follows:

>> **Power Plants**
Planning, sales and construction of photovoltaic plants

>> **Components & Systems**
Sale and distribution of merchandise

The segment information on this segment portfolio is shown below:

FOR THE FINANCIAL YEAR 2005

	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Income statement					
External sales revenue	37,830	73,206	80	–	111,116
Sales revenue between segments	–	–	381	– 381	–
Sales revenue by segment	**37,830**	**73,206**	**461**	**– 381**	**111,116**
Result					
Operating result (EBIT)	1,486	5,982	195	–	7,663
Financial result	–	–	–	–	160
Income from associated companies	–	–	–	–	15
Consolidated net income before tax	–	–	–	–	7,838
Income tax expense	–	–	–	–	2,888
Consolidated net income					**4,950**
Other information					
Investments	53	102	1	–	156
Depreciation & amortisation	85	164	2	–	253
Non-cash expenses	46	89	0	–	135
Non-cash income	120	232	0	–	352
Balance sheet					
Assets					
Segment assets	12,110	23,435	272	–	35,817
Investments in associated companies	–	–	–	–	514
Assets not allocated	–	–	–	–	0
Consolidated assets					**36,331**
Liabilities					
Segment liabilities	3,674	7,108	75	–	10,857
Liabilities not allocated	–	–	–	–	0
Consolidated liabilties					**10,857**

FOR THE FINANCIAL YEAR 2004

	Power Plants in T €	Components & Systems in T €	Other in T €	Consolidation in T €	Group in T €
Income statement					
External sales revenue	15,965	51,094	289	–	67,348
Sales revenue between the segments	106	–	410	– 516	0
Sales revenue by segment	**16,071**	**51,094**	**699**	**– 516**	**67,348**
Result					
Operating result (EBIT)	608	2,011	– 145	–	2,474
Financial result	–	–	–	–	149
Income from associated companies	–	–	–	–	– 1
Consolidated net income before tax	–	–	–	–	2,622
Income tax expenses	–	–	–	–	920
Consolidated net income					**1,702**
Other information					
Investments	183	584	12	–	779
Depreciation & amortisation	61	195	8	–	264
Non-cash expenses	8	27	0	–	35
Non-cash income	6	20	0	–	26
Balance sheet					
Assets					
Segment assets	4,610	14,756	320	–	19,686
Investments in associated companies	–	–	–	–	511
Assets not allocated	–	–	–	–	0
Consolidated assets					**20,197**
Liabilities					
Liabilities by segment	1,827	5,847	247	–	7,921
Liabilities not allocated	–	–	–	–	0
Consolidated liabilities					**7,921**

The segmentation of the operating result is carried out on the basis of analyses of cost accounting.

The breakdown of other parameters to be segmented has been carried out in respect of the Power Plants and Components & Systems segments by applying a uniform distribution key derived from the sales revenue.

Segment assets are defined as the total of long-term and short-term assets, minus investments in associated companies. With the exception of actual tax liabilities, segment liabilities are made up of long-term and short-term liabilities. This is also applicable to information on the secondary segment.

The release of provisions, liabilities and provisions for losses was taken account of as non-cash income and transfers to provisions for losses as well as the charging off of receivables as non-cash expenses.

Inter-group deliveries and services are carried out in respect of transfer prices at the same conditions as granted to third parties.

Geographical segments
The operations of the Group are located in Germany.

The table below shows a breakdown of Group sales by geographical market:

Sales revenue by geographical market	2005 in T €	2004 in T €
Germany	105,039	64,701
EU excluding Germany	5,937	2,647
Other	140	0
	111,116	**67,348**

The table below shows the book values of the segment assets and the additions to tangible and intangible assets, divided up by the geographical region in which the assets are located:

	Book values of the segment assets		Additions to tangible and intangible assets	
	31/12/2005 in T €	31/12/2004 in T €	31/12/2005 in T €	31/12/2004 in T €
Germany	36,331	20,197	156	779
EU excluding Germany	0	0	0	0
Other	0	0	0	0
	36,331	**20,197**	**156**	**779**

(33) INFORMATION ON BUSINESS WITH RELATED PARTIES AND COMPANIES

In the financial year 2005, Phönix SonnenStrom AG paid commission and fees for project realisation of T EUR 381 (2004: T EUR 410) to its subsidiary, Phönix Projekt & Service AG. Phönix SonnenFonds Verwaltungs GmbH, a subsidiary of Phönix Projekt & Service AG, paid T EUR 42 to Phönix Projekt & Service AG for various services in the financial year 2005.

In 2005, Phönix SonnenStrom AG was invoiced by the Werttreuhand GmbH tax and accountancy company in the amount of T EUR 7 (2004: T EUR 4) for services in connection with tax consultancy services rendered. Mr Ulrich Hirsch as a Supervisory Board member holds a stake in the aforementioned company.

Phönix SonnenStrom AG was invoiced by the Munich-based company Münchener Management Forum in the amount of T EUR 24 (2004: T EUR 35) for management training in the financial year 2005. Prof. Dr. Klaus Höfle as a Supervisory Board member holds a stake in the aforementioned company.

(34) CONTINGENT LIABILITIES

With the exception of the customary five-year warranty obligations entered into as part of orders in plant construction, there are no contingent liabilities.

(35) CONTINGENT RECEIVABLES AND LIABILITIES

There were no contingent receivables or contingent liabilities.

(36) OTHER FINANCIAL OBLIGATIONS

The Group has financial liabilities totalling T EUR 1,733 (2004: T EUR 1,563) arising from a number of rental and leasing agreements whereby rental contracts closed for an unlimited period of time were based on a contractual duration of ten years. Of a total value of T EUR 1,733 (2004: T EUR 1,563), an amount of T EUR 297 (2004: T EUR 177) is due within one year and an amount of T EUR 517 (2004: T EUR 780) has a residual term of more than five years.

On the reporting date, there was a commitment of T EUR 14,088 (2004: T EUR 485) from a number of purchase agreements.

(37) RISK MANAGEMENT SYSTEM

Currency and interest rate risks
The activities of the Group may incur financial risk mainly from changes in exchange rates. The Group uses forward exchange transactions to hedge against these risks.

Default risk
The default risk of the Group results primarily from accounts receivable. The amounts shown in the balance sheet are net of provisions set up for anticipated uncollectible accounts which were estimated by the management of the Group based on past experience and the current economic environment.

The default risk has been limited in the case of cash and cash equivalents and derivative instruments as these are held at banks which have been highly accredited by the international rating agencies.

Within the Group there is no significant clustering of default risk as the risks are distributed among a large number of contractual parties and customers.

(38) MATERIAL EVENTS AFTER THE REPORTING DATE

Effective 1 January 2006, Phönix SonnenStrom AG purchased a stake of 49 percent in the Italian company Renewable Energies Development 2002 S.r.l. (RED 2002).

The acquisition costs of the holding came to T EUR 500.

G. SUPPLEMENTARY REPORTING DUTIES UNDER THE GERMAN COMMERCIAL CODE

(39) OVERVIEW OF HOLDINGS

As per the reporting date, the direct and indirect holdings of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, were as follows:

Name of the company	Headquarters	Holding	Equity 31/12/2005 (IFRS) in T €	Result 2005 (IFRS) in T €
Phönix Projekt & Service AG	Sulzemoos, Germany	100 %	164	118
Phönix SonnenFonds Verwaltungs GmbH	Sulzemoos, Germany	100 %	40	6
Phönix SonnenFonds GmbH & Co. KG B1	Sulzemoos, Germany	31.2 %	1,635	48

Name of the company	Headquarters	Holding	Equity 31/12/2005 (GCC*) in T €	Result 2005 (GCC*) in T €
Phönix SonnenFonds GmbH & Co. KG B4	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG B5	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG B6	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG B7	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG D4	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG D5	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG D6	Sulzemoos, Germany	100 %	500.00	0.00
Phönix SonnenFonds GmbH & Co. KG D7	Sulzemoos, Germany	100 %	500.00	0.00

* German Commercial Code (HGB)

(40) BOARD OF DIRECTORS OF THE PARENT COMPANY

Dr. Andreas Hänel, PhD Engineering, Sulzemoos (Chairman of the Board)
Manfred Bächler, MSc Engineering, Senden (Technology)
Dr. Murray Cameron, PhD Physics, Garching (Operations)

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

The emoluments of the Board members came to T EUR 542 in the financial year 2005 (2004: T EUR 410).

(41) SUPERVISORY BOARD OF THE PARENT COMPANY

Michael Fischl, Head of Internal Audit of Sparkasse Ingolstadt, Abensberg (Chairman)
Ulrich Fröhner, energy consultant, Stuttgart (Deputy Chairman)
Dr. Patrick Schweisthal, lawyer, Rohrbach
Ulrich Th. Hirsch, lawyer, Schondorf
Prof. Dr. Klaus Höfle, economics and business pedagogics specialist, Giengen
Dr. Aribert Peters, PhD Physics, Rheinbreitbach (until 29 July 2005)
Prof. Dr. Thomas Zinser, tax consultant, Munich (effective 29 July 2005)

Attendance fees incurred by the meetings of the members of the Supervisory Board came to T EUR 45 in the financial year 2005 (2004: T EUR 37).

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, 10 March 2006
Phönix SonnenStrom Aktiengesellschaft
The Board of Directors

Dr. A. Hänel	M. Bächler	Dr. M. Cameron
(CEO and Chairman of the Board of Directors)	(Chief Technology Officer)	(Chief Operating Officer)

Auditor's Report

We have audited the consolidated financial statements prepared by the Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. (paragraph) 1 HGB (German Commercial Code) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

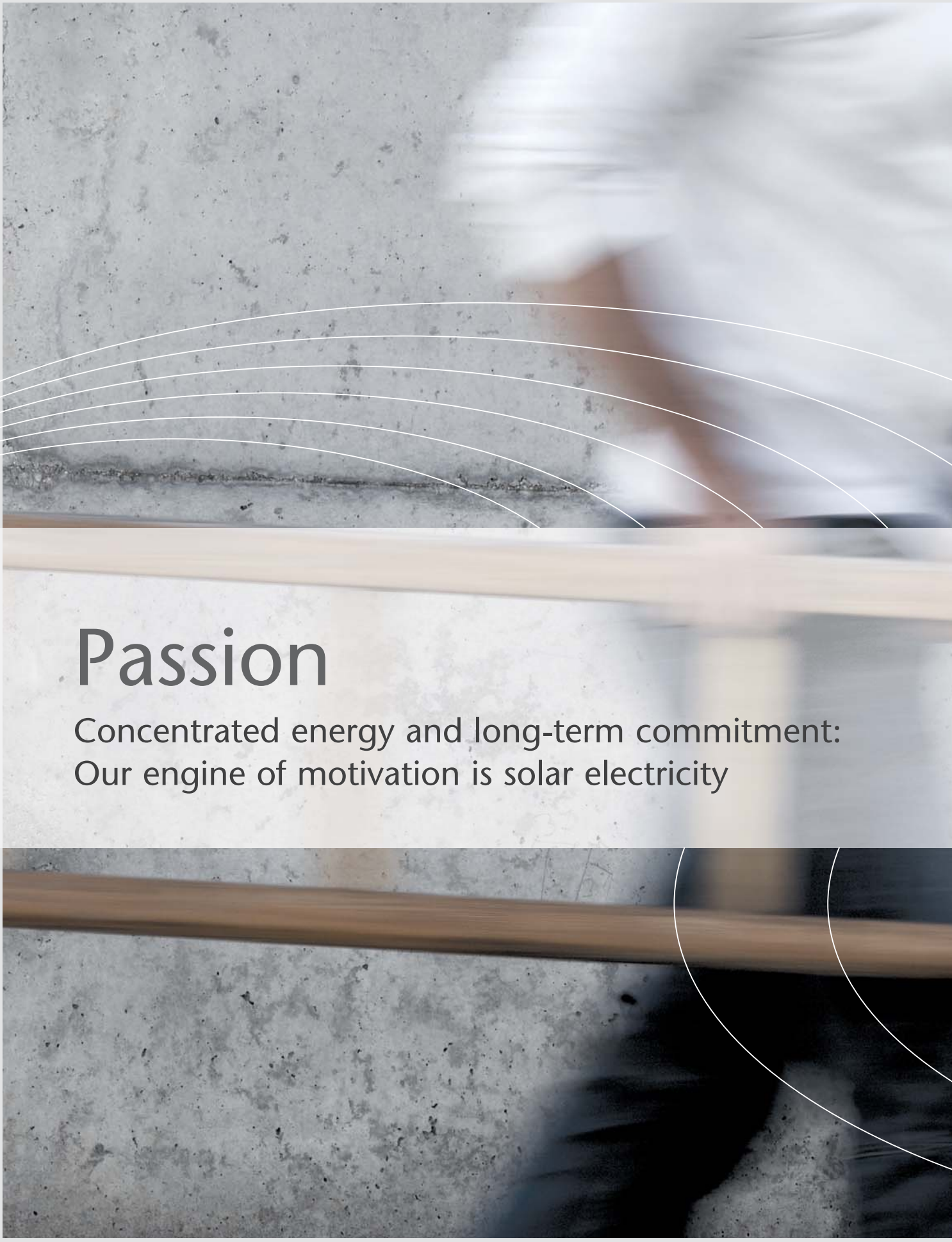
In our opinion, based on the findings of our audit, the consolidated financial statements of the Phönix SonnenStrom Aktiengesellschaft, Sulzemoos, comply with IFRS as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and full IFRS and give a true and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

Munich, 23 March 2006

AWT Horwath GmbH
Wirtschaftsprüfungsgesellschaft

ppa. A. Haas
German Public Auditor

M. Rauchfuss
German Public Auditor



Passion

Concentrated energy and long-term commitment:
Our engine of motivation is solar electricity

Abbreviations

AG	Aktiengesellschaft – stock corporation
a-Si	Amorphous silicon (thin film technology)
BSW	Bundesverband Solarwirtschaft – German solar industry federation
CAGR	Compound annual growth rate
CIS	Copper indium diselinid (thin film technology)
EBIT	Earnings before interest and tax
EEG	German Renewable Energy Act
EMU	European Monetary Union
EPIA	European Photovoltaic Industry Association
EU	European Union
Fifo	First in first out
GbR	Business Association under German civil code
GCGC	German Corporate Governance Code
GDP	Gross domestic product
GmbH	German equivalent of a limited liability company
GW	Gigawatt
GWp	Gigawatt peak power output
HGB	German Commercial Code (GCC)
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPO	Initial public offering
JPY	Japanese yen
KG	German equivalent of a limited partnership
kW	Kilowatt
kWh	Kilowatt per hour
kWp	Kilowatt peak power output
MHI	Mitsubishi Heavy Industries
MW	Megawatt
MWp	Megawatt peak power output
OTC	Over the counter
p.a.	Per annum
PV	Photovoltaic
SIC	Standing Interpretations Committee
VAT	Value added tax

Translation: Diana Polkinghorne, DP Business & Financial Translations; Design: www.bildhaft.de

Phönix SonnenStrom AG

Paper made of 80% recyclable fibre; bleached chlorine-free; Photo credits: Phönix SonnenStrom AG

Annual Report 2005

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