phoenix SOLAR

ANNUAL REPORT 2016

65 MWp photovoltaic power plant in Luning, Nevada, USA, 2016 built by order of Invenergy Solar Development LLC

PHOENIX SOLAR AT A GLANCE

Financial Figures

Revenues and results		01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015	Change
Shipments	MWp	153.7	98.7	55.7 %
Revenues	k€	139,239	119,407	16.6 %
Gross margin in % of revenues (Gross margin)	%	12.6	8.4	50.1 %
EBIT	k€	611	– 1,579	138.7 %
– in % of revenues (EBIT margin)	%	0.4	– 1.3	133.7 %
Consolidated net income for the period	k€	– 4,720	– 5,629	16.1 %

		12/31/2016	12/31/2015	
Orders on hand[1]	k€	186,407	251,936	– 26.0 %
Net orders on hand[1]	k€	55,832	148,457	– 62.4 %
Weighted project and sales pipeline	MWp	330.1	319.8	3.2 %

Balance sheet[1]				
Total assets	k€	46,516	53,444	– 13.0 %
Equity	k€	– 12,112	– 7,553	60.4 %
Equity ratio	%	– 26.0	– 14.1	– 9.7 PP
Return on equity	%	– 39.0	– 74.5	+ 40.4 PP

Employees				
Employees[2]	Heads	121	78	53.2 %
Employees[3]	FTE	108	84	26.5 %
Revenues per capita[3]	k€	1,295	1,405	– 7.8 %

Phoenix Solar share®[1]		2016	2015	
No-par bearer shares	Units	7,372,700	7,372,700	
Closing price	€	2.35	4.30	– 45.3 %
Market capitalisation	k€	17,326	31,695	– 45.3 %

Earnings per share		2016	2015	
Basic	€	– 0.62	– 0.71	– 12.1 %
Diluted	€	– 0.62	– 0.71	– 12.1 %

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

[2] Number of employees as of 12/31, excluding Executive Board members and part-time staff

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

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

CONTENTS

TO OUR SHAREHOLDERS

006 – 027

Letter to our shareholders – Executive Board of Phoenix Solar AG 007
Report of the Supervisory Board 010
Corporate Governance Report 014
Phoenix SonnenAktie® 020
From our 2016 chronicle 024
From our 2017 chronicle 027

GROUP MANAGEMENT REPORT

028 – 083

1 Events and results in the 2016 financial year 029
2 Events after the reporting date: Events and results after the end of the financial year........ 032
3 Basis of the Group 032
4 General conditions 037
5 Management and supervision 047
6 Comparison of forecast and actual business performance 050
7 Financial position and performance 053
8 Guidance, report on opportunites and risks 062
9 General statement on the Group's position and prospects 073
10 Sustainability........ 074
11 Report pursuant to section 315 (4) of the German commercial code (HGB) 077
12 Compensation report 080
13 Responsibility statement 083

CONSOLIDATED FINANCIAL STATEMENTS

084 – 089

Consolidated income statement 085
Consolidated statement of comprehensive income 085
Consolidated balance sheet 086
Consolidated statement of changes in equity 088
Consolidated cash flow statement 089

NOTES

090 – 150

A. Basic principles and methods 091
B. Accounting policies 101
C. Notes to the consolidated income statement 112
D. Notes to the consolidated balance sheet 119
E. Additional notes to the the consolidated financial statements 136
F. Other disclosures 138
G. Supplementary further disclosure requirements 147
H. Date and signing of the consolidated financial statements 149

Auditor's report 150

ADDITIONAL INFORMATION

151 – 157

Photovoltaic glossary 152
Editorials and contact 155
Financial calendar 156
Group structure 159

TO OUR SHAREHOLDERS

Letter to our shareholders – Executive Board of Phoenix Solar AG 007
Report of the Supervisory Board 010
Corporate Governance Report 014
Phoenix SonnenAktie® 020
From our 2016 chronicle 024
From our 2017 chronicle 027

LETTER TO OUR SHAREHOLDERS

Dear Shareholders,

Solar photovoltaics has now become and will continue to be one of the cornerstones of a sustainable renewable energy supply for a growing population on our planet. 2016 was a landmark year in the worldwide energy mix shift: Global capacity additions of solar photovoltaics achieved some 70 GWp or almost 40 percent growth vs. 2015, an unprecedented number. Market analysts agree that additional growth is programmed, as our technology is more in demand than ever and investment funds continue to flow into it. This is particularly true for the markets we are active in: The U.S. reached a record 9 GWp in the utility-scale segment, the Middle East countries doubled their installations, Asia/Pacific, though somewhat lagging behind, showed significant growth. Finally, even Europe despite all the ups and downs of government policies- showed some first signs of a recovery.

One of the trends driving this progress is the ever increasing competitiveness of our technology. A recent study, which we quote in our Annual report, showed that the unsubsidized production cost of a megawatt hour of electricity generated by large-scale solar in 2016 was significantly cheaper than coal or oil and roughly on par with offshore wind. Currently there is no better source to produce electricity than the inexhaustible power of the sun.

We at Phoenix Solar are well positioned to capitalize on this dramatic shift in the worldwide energy mix. As a global provider of turnkey services for the design, procurement and construction of commercial solar photovoltaic power plants, we were again able to demonstrate to our customers and the market our ability to deliver high-quality utility-scale and commercial rooftop solar generators on-time and on-budget around the world. By the end of 2016, our globally installed base of systems reached some 800 MWp.

Our own competitiveness depends on our ability to anticipate and master new technologies and to continue to leverage the economic advantages of large-scale solar with owners and investors. Key to our agenda was continued investment in our people, whether engineering, supply chain, operations or sales – we continue to hire seasoned industry experts who can hit the ground running and add value immediately for us. The growth is carefully controlled of course and cost control remains at the top of our agenda to stay lean in the face of stiff competition. We continue to refine our process organization in the same context for a systematic approach to our business worldwide. We invested in particular in Supply Chain (sourcing) and Estimating and Bidding, to ensure every offer we make is both competitive and profitable. These are the measures we are taking to lead the Phoenix Solar Group into a phase of sustainable, profitable growth.

We continue to refine our corporate culture, based on open communications, integrity and strong leadership – as well as on clear roles and efficient processes. In addition, we are recruiting experienced international sales and business development resources to drive further growth, while at the same time managing our global pipeline process ever more systematically to ensure mid-term growth prospects as well. The results have begun to show, we have seen steady improvement in our pipeline in recent months.

Everyone is aware that the project business by nature involves a certain volatility. We remain focused not only on securing volumes for the new year 2017 but even beyond that to reduce this volatility and achieve greater certainty in planning. Some delays in 2016 did affect us as significant volumes were pushed into 2017, driven by customer-related delays beyond our control. At year end 2016, we had a record 245 MWp of revenue-generating projects under construction around the world, an unprecedented record for the Phoenix Solar Group. Our pipeline right now is growing steadily and currently exceeds 350 MWp. This is a clear result of the focus on our pipeline and sales resources.

With a competitive technology, strong track record in the global markets, an experienced team and growing markets, our business is less susceptible to changes in the political landscape. In the US, demand remains strong and the customers, owners and investors we en   with on a daily basis continue to remain bullish on and invest in large-scale commercial solar. In Middle East we are strengthening our ties with leading industry groups determined to add photovoltaic to their portfolios. In Asia/Pacific we have successfully built a new base of satisfied customers willing to embark on a sound and lasting cooperation with us. And new management and new initiatives in Europe are starting to show results.

Our revenues grew at a reasonable rate in 2016; for the first time in several years we are able to report a positive EBIT result, with cost controls and absolute discipline on project margins globally being main contributors here. Finally, we have laid the foundation for continued strong growth and profitability going forward. I remain very confident that 2017 will become an even more successful year for our company and that we will fulfill the expectations of the markets, our customers and you, our valued shareholders.

We are most grateful for your continued confidence and support in the Phoenix Solar Group. It is an honor and privilege for me to serve as your CEO, my efforts remain highly focused on delivering sustainable value and growth for you as well. We look very much forward to continuing this exciting journey with you in the global renewable energy markets.

With best regards,

Tim P. Ryan
(Chief Executive Officer)

TIM P. RYAN
Chief Executive Officer

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

MANFRED HOCHLEITNER
Chief Financial Officer

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

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board hereby submits its report to the Annual General Meeting of shareholders, particularly on its supervision of management during the year under review, on its audit of the company's financial statements and management report prepared as of Saturday, December 31, 2016, pursuant to the provisions of the German Commercial Code (HGB), as well as on the consolidated financial statements and Group management report, and on its opinion on the auditor's report.

BACKGROUND INFORMATION

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

Since the AGM on June 23, 2015, the Supervisory Board has consisted of the following three members: Oliver Gosemann (Chairman), Prof. Thomas Zinser (Deputy Chairman) and Michael Fischl. The period of office of Supervisory Board Member Prof. Dr. Thomas Zinser ended with the AGM on June 1, 2016.

The AGM reappointed Prof. Dr. Thomas Zinser to the Supervisory Board with effect as of the end of the AGM of June 1, 2016 until the end of the AGM that approves the discharge of the directors for the 2017 financial year.

At its June 1, 2016 meeting, the Supervisory Board reelected Prof. Dr. Thomas Zinser to be its Deputy Chairman.

As a consequence, since June 1, 2016, as a result of the reappointment of Prof. Dr. Thomas Zinser the Supervisory Board has continued to consist of the following members: Oliver Gosemann (Chairman), Prof. Thomas Zinser (Deputy Chairman) and Michael Fischl. The requirements in terms of independent financial experts in the meaning of Section 100 (5) of the German Stock Corporation Act (AktG) (financial expert) were, and are, fulfilled by Prof. Thomas Zinser, whose main professional occupation is as a tax adviser.

No committees were formed.

Pursuant to the resolution of the AGM of June 1, 2016, the Supervisory Board Chairman on February 10, 2017 mandated PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, pursuant to Section 111 (2) Clause 3 of the German Stock Corporation Act (AktG), to audit the separate annual financial statements, the management report, and the consolidated financial statements and Group management report that are prepared pursuant to Section 315a of the German Commercial Code (HGB) on the basis of IFRS / IAS. On May 12, 2016, the auditor submitted an auditor's independence declaration to the Supervisory Board Chairman in accordance with section 7.2.1 of the German Corporate Governance Code, of whose correctness the Supervisory Board is not in doubt.

On March 22, 2017, the Supervisory Board consulted with the Executive Board concerning the corporate governance report pursuant to the regulations of the German Corporate Governance Code, and in the version of May 5, 2015 (published in the Federal Gazette of June 12, 2015), and coordinated concerning the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG). The declaration of conformity was published pursuant to statutory regulations. The complete corporate governance report, including the declaration of conformity, forms part of the annual report.

The Supervisory Board reviews the efficiency of its work annually as part of its closed-door session. Suggestions for improvement are also submitted at each meeting. The key areas of this efficiency review comprise the structuring and organization of the meetings, the optimizing of reporting by the Executive Board, and the passing of resolutions on agenda items, as well as the presentation of the company's financial position and performance, and the subsidiaries' positions. The Supervisory Board members participated in external further training measures over the course of the year to further optimize specialist qualifications. This particularly entailed more in-depth examination of topics preparing for the AGM and questions concerning statutory amendments to the German Stock Corporation Act (AktG).

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

The Supervisory Board held regular meetings, consulted intensively on the items on the agenda, and actively analyzed the development of the company and the situation in the sector. The Supervisory Board frequently consulted with the Executive Board about the management of the company, and supervised its activities. The supervision of the company's management is conducted primarily through regular written and verbal reports by the Executive Board, and discussion of these reports. The Executive Board reported promptly on the course of business, strategic development, and the current situation of the company and the Group. In addition to the Supervisory Board meetings, the Supervisory Board Chairman maintained constant contact with the CEO and CFO, and had himself be informed of the current status of business, specific business transactions, and, in particular, the situation of the major subsidiaries.

Furthermore, the Supervisory Board kept itself informed through regular telephone conferences with the Executive Board of the development of the company's financing, and discussions with the financing consortium.

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

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

- Deepening of business strategy action areas within the international context
- Refining the conceptual structure of corporate financing
- Expanding business activities in the Middle East and Asia
- Assessing business potentials connected with changed political situations in the USA
- Further developing the sales organization, especially in the USA
- Ongoing monitoring of the liquidity position and the status of refinancing
- Reviewing and discussing important major projects
- More in-depth appraisal and discussion of the project pipeline and opportunities to implement it
- Business planning for the Group and its subsidiaries
- Receipt and discussion of the Executive Board reports pursuant to Section 90 of the German Stock Corporation Act (AktG) on the liquidity and financial positions, intended business policy and other fundamental issues pertaining to corporate planning (in particular finance, investment and personnel planning)
- Monitoring the development of the internal control system (risk monitoring and early warning system pursuant to Section 91 (2) of the German Stock Corporation Act [AktG]), and information obtained on this basis
- Engagement with the findings of the DPR (the German Financial Reporting Panel) concerning the consolidated financial statements as of December 31, 2014
- Receipt and discussion of compliance reports
- Receipt and discussion of reports submitted by the internal audit function,
- Consultation concerning the content of the German Corporate Governance Code

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

- Approving major projects
- Extending the Group financing
- Takeover of minority interests in PSSG
- Founding a national company in Turkey
- Transfer of PSUS to PSDE
- Disposal of the company Bâtisolaire 3
- Setting targets for participation by women
- Appointing managers
- Consultancy contract with Dr. Murray Cameron

In respect of the members of the Executive and Supervisory Boards no conflicts of interest arose that must be reported without delay to the Supervisory Board and about which the Annual General Meeting is to be informed.

CHANGES AT EXECUTIVE BOARD LEVEL

As of the end of the reporting period, Dr. Murray Cameron, whose contract expired as of December 31, 2016, stepped down from the Executive Board. The Executive Board otherwise remains unchanged with Mr. Tim P. Ryan as Managing Board Chairman (CEO) and Mr. Manfred Hochleitner as Chief Financial Officer (CFO).

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

The Supervisory Board members received the following in good time ahead of the meeting it held to approve the financial statements:

- the separate annual financial statements for the 2016 financial year
- the management report by the Executive Board on the company's position in 2016
- the 2016 consolidated financial statements prepared in accordance with IFRS / IAS standards
- the Group management report by the Executive Board on the Group's position in 2016

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

At its financial accounts meeting on March 22, 2017 – which was also attended by the Executive Board who explained the financial statements they had prepared as well as the risk management system – the Supervisory Board examined the separate annual financial statements and management reports, and conducted an intensive and in-depth discussion with the auditor who was also present and reported on the significant results of its audit, as well as its focal points and scope, and was available to provide additional information. No major weaknesses in the internal control and risk management system relating to the accounting process were identified.

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

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

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

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

At its meeting on March 22, 2017, following consultation with the independent auditor pursuant to Section 171 (2) of the German Stock Corporation Act (AktG), the Supervisory Board issued the following statement on the independent auditor's report:

"Based on its own review, the Supervisory Board concurs with the results of the audit of the separate annual financial statements and the 2016 management report, as well as the consolidated financial statements and 2016 Group management report, by the independent auditor who has issued unqualified audit opinions. No objections were raised following the final result of the review by the Supervisory Board. Accordingly, the separate annual financial statements as at December 31, 2016 are ratified by the Supervisory Board in its meeting on March 22, 2017, and thereby adopted. Moreover, the Supervisory Board also ratifies the consolidated financial statements as at December 31, 2016."

Sulzemoos, March 22, 2017

Oliver Gosemann

Oliver Gosemann
(Supervisory Board Chairman)

CORPORATE GOVERNANCE REPORT
AND STATEMENT ON CORPORATE MANAGEMENT

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

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

During the year under review, the Executive and Supervisory Boards of Phoenix Solar AG consulted about the recommendations and suggestions of the "Government Commission German Corporate Governance Code" (DCGK) in the version of June 24, 2014 (published in the German Federal Gazette (Bundesanzeiger) on September 30, 2014), and in the version dated May 5, 2015 (published in the German Federal Gazette (Bundesanzeiger) on June 12, 2015). On Wednesday, March 22, 2017, they jointly issued an updated statement of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

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

DIVERSITY AND EQUAL OPPORTUNITY AT PHOENIX SOLAR AG

As an internationally operating company, Phoenix Solar is devoting greater attention to the issue of diversity. We regard diversity and equal opportunity as fundamental principles in our working environment. As of December 31, 2016, staff from 15 different countries were employed within the corporate Group of Phoenix Solar AG. Of the total of 121 employees (as of December 31, 2016, excluding Executive Board members, trainees and temporary help staff 27.3 percent were women.

On February 18, 2016, the Executive Board passed a resolution to set targets for the proportion of women in both management levels below Executive Board level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG), which contains the following:

a) The first management level below Executive Board level comprises the staff of Phoenix Solar AG who, as heads/managing directors of companies within the scope of consolidation bear responsibility for a region or a business area and/or responsibility for personnel, as well as staff at Group headquarters who, as a result of their area of senior responsibility, perform management tasks and/or bear responsibility for personnel. As of February 18, 2016, the first management level consists of 11 members of staff, four of whom are women (corresponding to a 36.4 percent proportion).
b) The Executive Board determines that a second management level below Executive Board level cannot be defined meaningfully due to the low number of staff and flat organizational structure.
c) The company's Executive Board sets the target for the proportion of women at the company's first management level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG) at a level of at least 30 percent, and determines that this target is to be met by June 30, 2017.

Following the modification of the Groupwide personnel structure in the 2016 fiscal year, the Executive Board arrived at the assessment that the management levels defined in the February 18, 2016 resolution no longer suitably reflect the Group's actual management structure. The Executive Board consequently passed a resolution on January 12, 2017 to cancel the February 18, 2016 resolution and to redetermine the two management levels below the Executive Board and related targets:

a) The first management level below the Executive Board comprises the employees of Phoenix Solar AG and its Group companies allocated to Level 2 of the Global Employee Master List (Senior Vice Presidents, Region Heads, Global Vice Presidents). The first management level currently consists of four members of staff, none of whom are women (corresponding to a 0 percent proportion).
b) The second management level below the Executive Board comprises the employees of Phoenix Solar AG and its Group companies allocated to Level 3 of the Global Employee Master List (Vice Presidents, General Managers, directors owning the regional process). The first management level currently consists of 18 members of staff, four of whom are women (corresponding to a 22.22 percent proportion).
c) The Executive Board sets the target for the proportion of women at the company's first management level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG) at a level of 0 percent, and determines that this target be met by June 30, 2017.
d) The company's Executive Board sets the target for the proportion of women at the company's second management level pursuant to Section 76 (4) of the German Stock Corporation Act (AktG) at a level of 22.22 percent, and determines that this target be met by June 30, 2017.

When the target deadlines expire on June 30, 2017, the Executive Board will review whether the targets were reached and set new targets and deadlines.

SUPERVISORY BOARD SIZE

The Supervisory Board of Phoenix Solar AG comprises a total of three members elected by the AGM.

SUPERVISORY BOARD EXPERTISE

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

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

SUPERVISORY BOARD COMPOSITION TARGETS

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

- The company will endeavor to ensure that at least one Supervisory Board Member embodies the criterion of internationality to a particular extent, either through being a foreign national and/or through having significant international experience.
- Moreover, the Supervisory Board members should be independent.
- The Supervisory Board strives to achieve an optimal composition based on professional criteria and the company's situation. The requirements profiles determined in this process are to be applied to potential candidates irrespective of their gender and, in the case of equal qualifications and experience, women will be given preference.

- The forming of committees has been dispensed with in light of the small number of Supervisory Board members, and the already fast decision-making channels in place.
- The age limit for members of the Supervisory Board is 67.

With Oliver Gosemann and Hans-Gerd Füchtenkort, the Supervisory Board includes two members with extensive international business experience. The criterion of internationality is met as a consequence. The Supervisory Board is currently comprised exclusively of independent members. None of these members maintains a personal or business relationship with the company, its committees, a controlling shareholder, or an affiliate associated with such a shareholder, that could constitute a material and not merely temporary conflict of interest, nor do they exercise a consultancy or committee function at customers, suppliers, lenders or other third parties. No member of the Supervisory Board has currently reached or exceeded the age limit of 67 years. The targets corresponding to the resolution dated February 16, 2014 are already met at present.

The Supervisory Board currently includes no female members.

By way of adding to and expanding the resolution dated February 16, 2014, on February 18, 2016 the Supervisory Board passed a resolution relating to setting targets for the proportion of women on the Executive and Supervisory Boards pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).

a) For the Executive Board, a target of 0 percent is set for the proportion of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).
b) For the Supervisory Board, a target of 0 percent is set for the proportion of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).

These targets for the Executive and Supervisory Boards are valid until June 30, 2017.

Along with the requirements posed by the company's situation and specialist matters, in future election proposals the Supervisory Board will nevertheless also take into account that the targets that have been set in relation to the Supervisory Board's composition are taken into consideration in respect of female Supervisory Board members.

OPPORTUNITY AND RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

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

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

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

SHAREHOLDINGS AND DIRECTORS' DEALINGS

Notifications of the proprietary dealings of individuals performing management functions, as well as individuals closely related to them, in shares of Phoenix Solar AG in the meaning of Article 19 of the Market Abuse Regulation (EU) No. 596/2014 (MAR) (Directors' Dealings) can be viewed in the company register. The German Federal Financial Supervisory Authority (BaFin) also provides a database with all notified and published directors' dealings on its website at https://portal.mvp.bafin.de/database/DealingsInfo/. These notifications are also posted on the company's website at http://www.phoenixsolar-group.com/en.html under "Investor Relations", "Corporate Governance" and then "Directors' Dealings", and are updated and made accessible for a one-month period.

In the 2016 fiscal year, one Supervisory Board Member performed and notified a director's dealing notifiable pursuant Article 19 MAR. Article 19 (1) in combination with (8) MAR requires directors' dealings to be notified after total volume of EUR 5,000 has been reached within a calendar year. The EUR 5,000 threshold is calculated from adding all transactions specified in Article 19 (1) MAR, without netting.

As of December 31, 2016, the Executive Board members held a total of 72,885 shares, or 0.99 percent of the votes (December 31, 2015: 72,885 shares or 0.99 percent). The Supervisory Board members held a total of 25,000 shares, or 0.34 percent of the shares (December 31, 2014: 20,000 shares, or 0.27 percent).

Both boards' members together hold shares equivalent to a 1.33 percent interest in the company (December 31, 2015: 1.26 percent).

COMPENSATION REPORT

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

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

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

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

RELEVANT CORPORATE GOVERNANCE PRACTICES

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

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

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

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

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

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

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

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

The Executive Board is responsible for ensuring that statutory regulations and inhouse guidelines are complied with by Group companies. To this end, as well as with a view to observing and promulgating high ethical standards at Phoenix Solar, a standard compliance organization that is binding on the entire Group is in force. The compliance organization reflects the Group's current positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It has been approved by the Executive Board and managers, and communicated to staff.

The Executive Board has not formed any committees.

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

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

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

JOINT DECLARATION OF CONFORMITY OF MARCH 22, 2017

The Executive and Supervisory Boards of Phoenix Solar AG declare that, since the last declaration of conformity on March 24, 2016, the recommendations of the "German Corporate Governance Code Government Commission" in the version of May 5, 2015 (published in the German Federal Gazette [Bundesanzeiger] on June 12, 2015) have been complied with, and will continue to be complied with in the future, with the following exception and:

IN THE VARIABLE COMPENSATION COMPONENTS, RETROACTIVE MODIFICATION OF PERFORMANCE TARGETS OR COMPARISON PARAMETERS SHALL BE EXCLUDED. (pursuant to section 4.2.3 of the Code)

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

Sulzemoos, March 22, 2017
Phoenix Solar Aktiengesellschaft

Oliver Gosemann

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

For the Supervisory Board
Oliver Gosemann
(Supervisory Board Chairman)

PHOENIX SONNENAKTIE®

Around the 2015/2016 new year, after being recommended by two German investor magazines, the share price quickly appreciated in high turnover. Starting at the closing price for the previous 2015 stock market year (EUR 4.30), it rose initially to EUR 4.51. The upturn in early January was nevertheless neutralized by sharp price falls on financial markets worldwide, which also resulted in our share falling again. The low for the quarter of EUR 3.30 was reached on February 9, 2015.

The extent to which our share is followed by many market participants was evident after good news about our Asia/Pacific sales region and especially our announcement of a new major order from the USA, which fed through to renewed share price gains. The share price then reached its high for the year of EUR 5.00 on March 3.

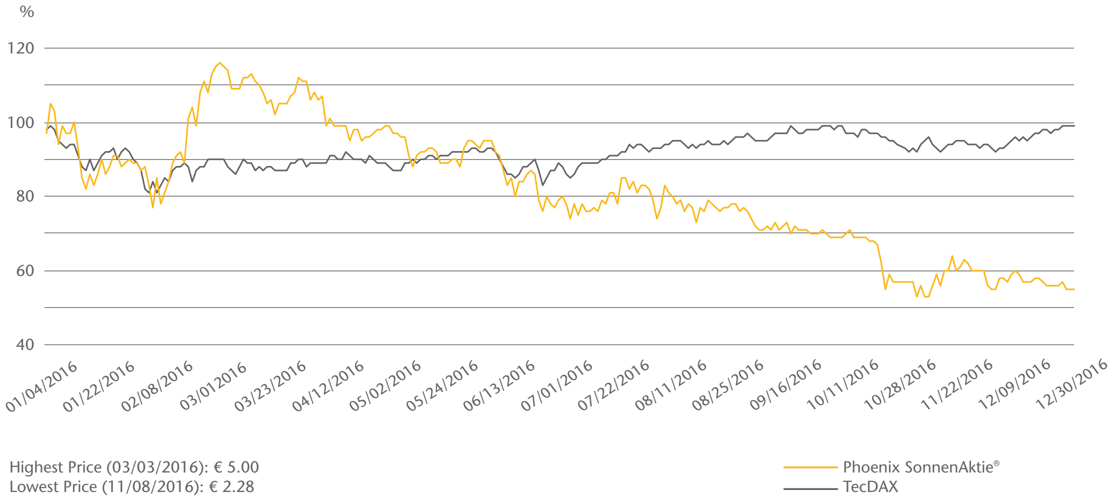
In continuously reducing trading volumes, the share then registered a downtrend, however, which proved unbroken until the year-end. Weak news flow during the second and third quarters, when we reported hardly any major new orders, was a significant reason for this. In November, the postponement of two projects then required us to revise our forecast for the year. The share price then immediately dropped to its low for the year of EUR 2.28. The share closed on December 30, 2016 at EUR 2.35.

After the start of the new year, on January 10, 2017, strong demand for our share, probably also reflecting improved sentiment towards solar stocks overall, led to a breakout on the upside and out of its trend channel. At EUR 3.15, it closed for the first time again above EUR 3.00, but was unable to hold this level, subsequently moving in a range between EUR 2.80 and EUR 3.00. This performance was aided by announcements of new projects from our Asia/Pacific region.

As of the editorial closing of this report, on March 15, 2017, the price of the Phoenix Solar AG share – the Phoenix SonnenAktie® – amounted to EUR 3.00.

Besides stock market trends in general and those for the solar sector in particular, the further performance of the share price will depend significantly on news flow from Phoenix Solar.

Price performance of the Phoenix SonnenAktie® versus the TecDAX (01/01/ – 12/31/2016)



Highest Price (03/03/2016): € 5.00
Lowest Price (11/08/2016): € 2.28

Phoenix Solar AG had a market capitalization of EUR 17.3 million as of December 31, 2016 (December 31, 2015: EUR 31.2 million). In terms of trading volumes (XETRA), average daily turnover amounted to around 24,000 shares in the 2016 financial year (2015: around 45,000).

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The 18th Ordinary Annual General Meeting of Phoenix Solar AG was held on June 1, 2016, in Fürstenfeldbruck. Almost all agenda items were approved with large majorities, some in excess of 90 percent. During voting, presence amounted to around 9.83 percent of the voting-right entitled share capital of EUR 7,372,700. The dividend was not distributed for the 2015 financial year due to the net losses incurred. For the same reason, the company will also distribute no dividend for the 2016 financial year. A return to the former years' investor-oriented dividend policy depends on the progression of business over the coming years.

SHAREHOLDER STRUCTURE

Based on a communication from Mr. Volker Wiewer dated October 12, 2015, a private shareholder, we assume his interest in the company also currently amounts to more than five percent. On November 21, 2016, Supervisory Board Chairman Oliver Gosemann notified that he acquired a further 5,000 shares in the company. The Executive and Supervisory Boards consequently held a total of 1.33 percent of the shares as of December 31, 2016. The free float of Phoenix Solar AG amounts to 94.6 percent of the shares, according to the definition of Deutsche Börse AG.

INVESTOR RELATIONS

With the further success of our turnaround and our return to a sustainable growth path, we continue to regard it as an important task to also intensify capital market communication. This will entail placing capital market participants' interest in the Phoenix Solar AG share (Phoenix Solar AG share) on an even broader footing, and awakening their understanding that Phoenix Solar AG, as a reliable partner for the planning, purchasing and turnkey construction of high-performance photovoltaic power plants to budget and deadline, and with its focus on international growth regions, has adopted an independent path within the solar sector, and is working on consistently exploiting the major opportunities for further revenue and earnings growth that are on offer.

In this sense, we are working continuously on structuring our corporate communication to be more transparent and more efficient. An opportunity arose when, in November 2015, an amendment to the German Securities Trading Act exempted companies from the requirement to publish reports on their first and third quarters. Instead, the Frankfurt Securities Exchange expects members of the Prime Standard to publish so-called quarterly statements. We participated intensively in public discussion about the content and structure of this new instrument and developed a concept for Phoenix Owner AG, which was presented at several specialist events and was included by DIRK, the German Investor Relations Association, as a model in its booklet of recommendations. We regard approving comments, especially from our shareholders, as an incentive to continue our approach and constantly further improve our financial market communication.

To also establish closer direct communication with our shareholders, we sent a shareholder letter to most banks' custody clients well as to our own post and email address lists in January 2017. We are hereby endeavoring to explain at regular intervals – including between shareholder meetings – our new positioning on our path to resumed profitable growth after completing our far-reaching restructuring. With this is connected the Executive Board's wish to involve shareholders to a greater extent, to motivate them to communicate more with the company, and not least also to increase their presence at shareholder meetings. We had received a total of 516 responses and registrations until March 15, 2017 corresponding to a response rate of around 12 percent measured in terms of the entirety of 4,400 custody accounts billed and reached by banks. We would like to thank all shareholders who have participated in this campaign.

The Executive Board presented the 2015 fiscal year results to analysts and investors in a telephone conference on March 30, 2016. The quarterly results were explained by telephone on May 4, August 4 and November 10.

On May 9 and August 30, 2016, the company gave a presentation at the DVFA's Small Cap Conferences, and on September 13, 2016 at the Prior Capital Market Conference. In parallel with these events, the company also held one-on-one discussions with analysts, investors and broker houses in Frankfurt am Main.

We also presented the company's position and prospects on November 21 at the German Equity Capital Forum in Frankfurt Am Main, and on December 8 at the Munich Capital Market Conference.

The company's financial calendar for the 2017 financial year is available on our website under "Investor Relations", and is updated regularly. The current financial calendar committee can be found on page 156 of this report.

ANALYST COVERAGE

There are currently no analyst reports on Phoenix Solar AG.

Key Figures

		Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	2015
Number of shares[1]	Units	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700	7,372,700
Market capitalization[1]	€	35,455,314	24,329,910	22,177,082	17,325,845	17,325,845	31,239,636
Closing price (Xetra)	€	4.81	3.30	3.01	2.35	2.35	4.30
Highest price	€	5.00	4.78	3.65	3.06	5.00	5.84
Lowest price	€	3.33	3.28	3.01	2.28	2.28	1.63
Trading volume	Units	3,059,891	1,341,412	860,400	913,118	6,174,821	11,767,966
	€	13,095,224	5,346,779	2,860,810	2,315,551	23,618,385	43,365,218
Earnings/loss per share[4]	€[2]	– 0.50[2]	– 0.63[2]	– 0.45[2]	– 0.62[2]	– 0.62[2]	– 0.81[2]
	€[3]	– 0.50[3]	– 0.63[3]	– 0.45[3]	– 0.62[3]	– 0.62[3]	– 0.81[3]

[1] At the end of the period [2] Undiluted earnings/loss [3] Diluted earnings/loss [4] Accumulated over the quarters

Key data

International Securities Identification Number (ISIN)	DE000A0BVU93
German Securities Identification Number (WKN)	A0BVU9
Ticker symbol	PS4
Share class	No par bearer shares
Number of shares as of December 31, 2016	7,372,700 shares
Share capital as of December 31, 2016	€ 7,372,700
Transparency level	Prime Standard
Market segment	Regulated Market
Stock exchanges	XETRA, Frankfurt am Main (Prime Standard), Munich (M:access), Stuttgart, Berlin, Düsseldorf, Hamburg, Hanover
Sector/sub-sector	Industrial Products & Services/Renewable Energies
Indices	CDAX, Prime All Share, Technology All Share, various sector and sub-sector indices of Deutsche Börse AG
Financial year closing date	December 31
Accounting standards	IFRS
Initial date of stock market listing	11/18/2004
Designated Sponsor	Oddo Seydler AG

FROM OUR 2016 CHRONICLE

JANUARY

Our business in Turkey is developing: at the end of 2015, together with our partner Asunim, we won a further photovoltaic project amounting to 4.9 MWp. To process current orders and with a view to our planned further expansion, a team is established in Ankara that currently still employs external staff for planning and construction supervision.

MARCH

A decisive step for our further development: on March 18, we concluded an agreement with our banks that extends our financing until September 30, 2018. The financing facility now comprises a volume totaling around EUR 101 million, and consists of a syndicated loan of EUR 85.4 million, as well as other bilateral cash and bill guarantee lines.

We passed ISO 9001:2015 and ISO 14001:2015 quality and environmental management system audits. The certificates were awarded in April.

APRIL

Groundbreaking ceremony for Invenergy project in Nevada. The order for this 65 MWp nominal output photovoltaic power plant was signed in December 2015, and announced in February 2016.

Our Philippine subsidiary that was founded in September 2015 starts preliminary work on its second project. The focus is currently on commercial & industrial (C&I) rooftop systems in the lower single-digit MWp range – we regard the Philippines as an interesting growth market, and are evaluating opportunities to also win orders for ground-mounted systems there.

MAY

We report on a strategically important new project in Turkey. Together with our partner Asunim we receive the order for the first government-licensed photovoltaic power plant in Turkey. The 9.1 MWp nominal output power plant is being constructed in in Elazığ in Eastern Turkey for a major Turkish corporate group and in collaboration with the European Development Bank.

Preparations were made at the Phoenix Solar Group’s first worldwide management meeting to further advance sustainable and profitable growth. Key topics included establishing standard structures and processes groupwide, especially for purchasing and preparing offers, as well as the launch of new systems.

JUNE

The 18th Ordinary AGM of Phoenix Solar AG was held on June 1 in Fürstenfeldbruck near Munich. The Management Board reported on strong growth in 2015 and further plans. All motions were accepted with large majorities. Extensive documentation can be found on our website.

JULY

On April 26, 2016, we signed a contract with Danish investment company Obton relating to the sale of all shares in our Bâtisolaire 3 power plant. This agreement was still subject to conditions precedent that were met at the end of July. The proceeds were utilized mainly to repay debt.

We report the acquisition of an exciting project in the USA. On behalf of project developer and operator APEX, we are taking responsibility for the turnkey construction of a photovoltaic power plant with 19.2 MWp of nominal output. This forms part of the hybrid project where the electricity generated is to be utilized by U.S. Army facilities in Fort Hood, Texas.

Abbreviated Consolidated Income Statement for the period from January 1, 2015 until December 31, 2016

in k€	Q4/2016	Q3/2016	Q2/2016	Q1/2016	Q4/2015	Q3/2015	Q2/2015	Q1/2015
Revenues	30,904	55,030	43,377	9,927	37,205	42,442	34,814	4,947
Cost of materials	25,386	49,023	38,653	8,613	33,725	38,711	32,933	4,056
Gross margin	**5,518**	**6,007**	**4,724**	**1,314**	**3,480**	**3,731**	**1,881**	**891**
Other operating income	1,222	1,424	734	1,118	2,405	1,281	796	865
Personnel expenses	2,831	3,139	2,906	2,473	1,410	1,552	2,356	2,331
Depreciation and amortization	141	227	311	331	337	347	328	354
Other operating expenses	2,757	2,095	2,183	2,099	2,204	2,070	1,978	1,666
Result from associated companies	0	31	11	0	– 10	34	0	0
EBIT	**1,011**	**2,001**	**69**	**– 2,471**	**1,924**	**1,077**	**– 1,985**	**– 2,595**
Financial result	– 1,309	– 830	– 1,096	– 1,027	– 1,213	– 1,125	– 1,085	– 945
Income taxes	964	15	43	46	– 412	99	11	– 14
Consolidiated net income for the period	– 1,261	**1,156**	**– 1,070**	**– 3,545**	**1,123**	**– 147**	**– 3,081**	**– 3,526**
- of which due to majority shareholders	– 1,275	1,254	– 926	– 3,655	1,129	– 68	– 2,862	– 3,423
Overall performance	**– 452**	**1,112**	**– 1,024**	**– 4,196**	**1,208**	**136**	**– 4,091**	**– 2,878**
Earnings per share	**– 0.17**	**0.17**	**– 0.13**	**– 0.50**	**0.15**	**– 0.01**	**– 0.39**	**– 0.46**

SEPTEMBER AND OCTOBER

Further companies utilize the “Power-Wheeling” system in Jordan. Legislation in Jordan allows self-generated electricity from renewable energies to be fed in at one site and corresponding electricity volumes to be purchased at other locations at favorable tariffs. This is particularly interesting for companies with several branch operations such as hotel chains and banks. Following Marriott and Sheraton, two Jordanian banks have now also placed orders with us to construct such plants.

NOVEMBER

Our subsidiary in Singapore ranks among the competitors that qualified for the world’s largest test center for floating solar systems. We successfully tested a smaller system in advance, which brought us an invitation to the competition and prompted the official event sponsors to bear the costs for our competition contribution. Then the test appraisal starts with ten different systems: only the two most appropriate systems from the competitor group are to move up to the second round. Each of the selected firms is then to build a 1 MWp system based on their model.

After two major projects in the USA (notice to proceed) and Turkey (contract closing) are delayed and the planned related revenues can no longer be received in the fourth quarter, we reduce the revenue and earnings forecasts for the financial year.

The notice to proceed for the major projectin the USA is finally issued – although the customer does not wish the details to be published. Preparation for the project starts immediately. Work on the construction site commences in early 2017.

DECEMBER

After more than 13 years with the company, Dr. Murray Cameron steps down from the Executive Board as of December 31, but remains with the company in a consultative role for a transition period. The Supervisory and Executive Boards thank him for his contribution, especially in internationalizing the business of Phoenix Solar AG.

FROM OUR 2017 CHRONICLE

JANUARY

Our subsidiary in the Philippines boasts satisfied customers: Robinsons, one of the island state's largest real estate companies, has placed orders for further large-scale rooftop systems for two of its shopping malls.

An international jury led by the German CleanTech Institute has bestow Global RES Awards on three of our projects. Our system at the King Abdullah Petroleum Studies and Research Center in Saudi Arabia and the 9.1 MWp Solentegre power plant in Turkey received First Mover Awards. The photovoltaic system at Munich's Neue Messe new trade fair center received an award in the "Largest Projects" category. When Phoenix Solar completed this project in 2002, it was the largest commercially utilized rooftop system worldwide.

FEBRUARY

IKEA Southeast Asia is also impressed by the performance of our colleagues in Asia/Pacific. After successfully commissioning a 1 MWp rooftop system on an IKEA branch in Thailand, a master contract was signed to construct further solar rooftop systems. A first order is now being implemented in Tampines, Singapore.

MARCH

Akfen Renewable Energy, the energy division of a major Turkish group, intensifies its collaboration with us. After having already constructed the first official government licensed photovoltaic power plant in Turkey for this customer, it now awards us an order to plan and construct an even larger plant of 11.2 MWp in North Turkey. Further joint projects of different sizes are under discussion.

We have reached full control of our Asia/Pacific region by buying in the former managing directors' outstanding minority interests. Asia/Pacific has been an important base for our international business since 2006, and we anticipate further growth there. Mark Argar is appointed to be the region's new Senior Vice President – he will bring us further along our growth path with his many years of experience heading up renewable energies companies in Latin America and Asia.

GROUP MANAGEMENT REPORT

FOR THE FINANCIAL YEAR FROM JANUARY 1 TO DECEMBER 31, 2016

1 **Events and results in the 2016 financial year** 029

2 **Events after the reporting date: Events and results after the end of the financial year** 032

3 **Basis of the Group** 032
3.1 Legal structure 032
3.2 Locations 033
3.3 Business segments and business models 034
3.4 Employees 036

4 **General conditions** 037
4.1 Purchasing markets and price trends 039
4.2 Sales markets 041

5 **Management and supervision** 047
5.1 Key financials 048
5.2 Sales-oriented control parameters 049
5.3 Compliance and Corporate Governance 050

6 **Comparison of forecast and actual business performance** 050

7 **Financial position and performance** 053
7.1 Results of operations 053
7.2 Financial position 059
7.3 Net assets 060

8 **Guidance, report on opportunites and risks** 062
8.1 Strategy 062
8.2 Guidance in the baseline scenario 064
8.3 Risk policy 065
8.4 Opportunity and risk management system 066
8.5 Internal control and risk management system in relation to the Group financial accounting process 066
8.6 Summary of the risk position 067
8.7 Specific risks 068
8.8 Opportunities 071
8.9 Future dividend policy 072

9 **General statement on the Group's position and prospects** 073

10 **Sustainability** 074
10.1 Ecology 074
10.2 Commitment to social responsibility 076

11 **Report pursuant to section 315 (4) of the German Commercial Code (HGB)** 077

12 **Compensation report** 080
12.1 Principles of the compensation scheme for the Executive and Supervisory Boards 080
12.2 Executive Board 080
12.3 Supervisory Board 082

13 **Responsibility statement** 083

1 EVENTS AND RESULTS IN THE 2016 FINANCIAL YEAR

We remain on our growth track. At the end of 2015, we minimized all expenses not serving the project business and sales revenue generation. We exploited all opportunities to make expedient savings. As part of this major shift, we also developed a new corporate strategy and started to implement it consistently. Our employees and customers form the focus. We further strengthened our teams of experienced and motivated sector experts, giving them a clear process organization that enables high efficiency and can grow further as the business grows. Here we first prioritized our purchasing (Supply Chain) and preparation of offers (Estimating and Bidding), to improve our competitiveness also when component and electricity prices are falling. And we also expanded our sales team in the interests of the further growth of our project pipeline. Not least, one of our main tasks at all times is to construct for our customers – on-time and on-budget – photovoltaic systems distinguished by high quality and performance.

The 2016 financial year shows we are on the right path. We are not yet at our target but our strategy is paying off. This program gives us grounds for confidence for 2017 and beyond that we can gain additional momentum for the further development and growth of the company on the basis of global solar markets' high growth rate.

Our business continues to be based on our extensive offerings of turnkey engineering, procurement and construction (EPC) of durable, efficient photovoltaic power plants with high technical precision and quality – on-time and on-budget. We aim to rank as one of the global EPC companies offering the best value for money. The photovoltaic market continues to grow unabated in our three main sales regions of the USA, Asia/Pacific and the Middle East. Solid demand prevails for our products and services. Fresh growth is also once again anticipated for the first time in Europe in 2017.

We implemented a number of measures in the 2016 financial year to appropriately meet such demand in sales terms, too, and further strengthen not only our competitiveness but also our profitability. This generally concerns further raising internal efficiency, and consequently customer utility, and fostering the exchange of successful approaches between the subsidiaries. The overriding objective is not only to remain competitive in an environment where component prices and electricity revenues continue to fall, but also to further improve our profitability. Constant optimization of internal processes helps pave the way for the coming years' growth path.

Setting up a Groupwide supply chain organization under central management represents a significant innovation. With this global bundling and management of our activities in the components purchasing area, we are significantly improving our position in price negotiations with our suppliers. We only work together with tried and tested quality suppliers ("Tier 1") in this context. In turn, improved system costs enhance the profitability of projects, and enable our sales function to submit excellent offers to our customers. From this basis, the global network of strategic alliances with suppliers, project developers, financing partners and investors is being strengthened and expanded. This will enable Phoenix Solar to seize business opportunities more quickly and with greater certainty.

These benefits are flowing into a further process, the preparation of offers (Estimating and Bidding), which we have set up on a uniform basis Groupwide for the first time. When we submit offers to potential buyers, then they are already based, on the one hand, on clear ideas as to how we implement their requirements and wishes as best as possible, including precise estimates of the necessary materials, labor and prices, as well as detailed time planning. On the other hand, an already well-developed cost calculation is also included in offers. Our aim in this context is to offer customers an attractive and reliably planned project that is also profitable for us. Great care is needed to avoid unwelcome surprises for both parties. We have recruited very good solar professionals for this demanding function that is crucial to success. The success of both new approaches is already evident in 2016 in the pleasing development of gross profit margins.

Finally, in order to realize our ambitious growth plans, we have also reviewed and realigned personnel policy and organizational development to a Groupwide standard: Adapting workforce strength to rising business volumes is especially evident in our teams in the USA and the Middle East. Given current projects and further good business projects in Turkey, we founded our own Ankara-based company there at the end of 2016. The new employees we are hiring exclusively consist of specialists and managers from the solar sector who already have extensive experience, contribute networks of contacts and can immediately deploy their experience for our customers.

These measures have further strengthened the profitability of our operating business. Although we have not yet reached our announced sales revenue growth, by contrast, growth of around 16 percent in our highly competitive and volatile business can nevertheless be seen as entirely commendable.

Business development and trends were explained continuously both to capital market participants by way of regular publicity as well as at several conferences, as well as with the financing bank syndicate. With an agreement dated March 18, 2016, the financing that was arranged in 2012 was extended in a modified form until September 30, 2018. With a two and half year extension, this is the farthest reaching prolongation of our credit lines since 2012.

The project business has an inherent tendency to volatility that is reflected in occasional delays to building permits and the postponed signing of contracts. When the construction start of a large-scale project that had already been contractually commissioned was postponed into 2017, and the issuing of an order in Turkey that was agreed for autumn 2016 was delayed, we were forced to downgrade our full-year forecasts in November 2016. A few days later the building permit for the power plant in the USA then arrived – work on the project commenced immediately and a start was made to construct the building site at the beginning of 2017.

In this connection, we must point out again that business processes that are, after all, always of a longer term nature cannot be oriented to the rhythm of reporting dates and forecasting periods. Although the postponement of the building permit for a project, for example, can prompt us to correct guidance, it in no way diminishes the company’s value. A clear objective of the management nevertheless remains to expand business activities to such an extent that such events are no longer significantly apparent in our overall course of business, especially as they have no negative impact whatsoever on medium and long-term business success and profitability. To this end, we are strengthening our sales function and working further on optimizing our sales processes.

OVERVIEW OF REVENUES AND EARNINGS

In the 2016 financial year, the Phoenix Solar Group constructed plants with nominal output of 153.7 MWp. This was 55.7 percent more than in 2015, when 98.7 MWp were delivered. On this base, we generated consolidated revenues of EUR 139.2 million, representing growth of 16.6 percent. The difference between growth in shipments and growth in revenues is significantly connected with the fact that in a large-scale project in the USA the customer provides the modules – in other words, we install modules that do not contribute to our revenue. At the year-end, we had power plants with a total of 245 MWp under construction – the largest volume in the history of Phoenix Solar AG.

The gross profit trend shows that we are operating with growing success our business model of engineering, planning and constructing highly efficient solar photovoltaic power plants. In fact, we improved our gross profit margin (revenue less cost of materials in relation to sales revenue) from 8.4 percent in 2015 to now 12.6 percent. At EUR 0.6 million of EBIT for the full year, we again generated a positive result before interest and tax for the first time since 2010 (2015: EUR -1.6 million). This corresponds to an EBIT margin of 0.4 percent (2015: -1.3 percent). The consolidated net result for the period attributable to the majority shareholders stood at EUR - 4.6 million (2015: EUR - 5.2 million). This corresponds to earnings per share of EUR - 0.62 (2015: EUR - 0.71).

CHANGES TO THE GROUP'S LEGAL STRUCTURE

In April 2016, we sold our project company Bâtisolaire 3, comprising a photovoltaic power plant located in France, to investment firm Obton A/S, Aarhus, Denmark. A corresponding agreement was signed on April 26, 2016 and the agreement went into force in July 2016. As we ourselves do not act as an operator of photovoltaic power plants, the plant was not deemed to be a significant operating asset. The proceeds were utilized mainly to repay debt.

In December 2016, we founded Phoenix Solar Yenilenebilir Enerji A.Ş., Ankara, as a wholly-owned subsidiary in Turkey. With this step we are pursuing our tried and tested strategic approach of positioning a local company as a contractual partner alongside our customers. This further strengthens our already good position in the high-growth Turkish photovoltaic market.

CHANGES WITHIN THE EXECUTIVE BOARD

After 13 years with the company, Dr. Murray Cameron stepped down from the Executive Board of Phoenix Solar AG as of the end of December 31, 2016. The Supervisory and Executive Board thanked him for his performance, especially in internationalizing the Group, as part of which he founded many subsidiaries in Europe, Asia and America, which to a certain extent he himself managed. Some of these meanwhile rank among the significant operating centers of our business activities.

2 EVENTS AFTER THE REPORTING DATE: EVENTS AND RESULTS AFTER THE END OF THE FINANCIAL YEAR

In March 2017, after the end of the reporting period, we acquired all of the outstanding minority interests in Phoenix Solar Pte Ltd, our subsidiary in Singapore. These minority interests were held by a group of former managing directors of the subsidiary. We now hold 100 percent of the company after implementing this transaction. This step has major strategic importance: This company occupies a leading position in the local market in Singapore for commercial and industrial rooftop systems, and also functions as the parent company for Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia, and Phoenix Solar Philippines Inc., Manila, Philippines. It is also responsible for activities in the entire Asia/Pacific region, for both commercial & industrial rooftop systems as well as utility-scale ground-mounted systems. The management team newly established in 2016 is creating the foundations for further significant business growth of our sales region in 2017 and beyond.

3 BASIS OF THE GROUP

3.1 LEGAL STRUCTURE

The Phoenix Solar Group is an internationally operating provider of engineering, procurement and construction services for photovoltaic power plants. The parent company, Phoenix Solar AG, was formed on November 18, 1999, and was registered in the commercial register of Munich District Court under registry sheet number 129117 on January 7, 2000. As of December 31, 2016, twelve subsidiaries and ten project companies were subordinated to the parent company, all of which are fully consolidated in the consolidated financial statements of Phoenix Solar AG.

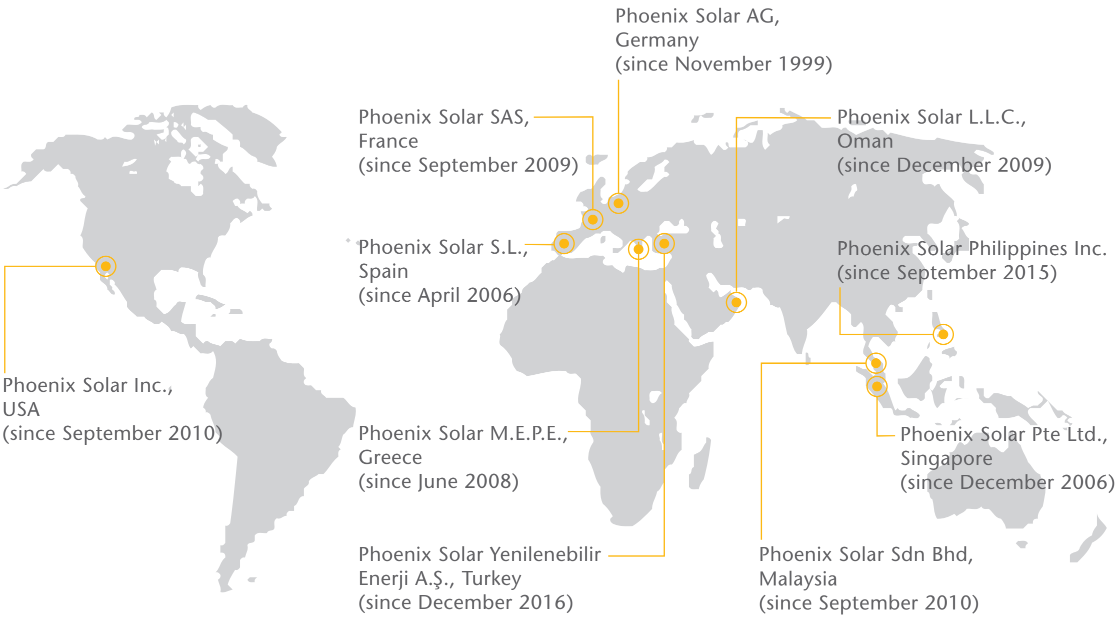
The business headquarters of Phoenix Solar AG are located at Sulzemoos near Munich, Germany. The central departments were managed from this location in the 2016 financial year.

CEO Tim P. Ryan heads up the areas of Strategy, Business Development, Supply Chain, Sales and Corporate Communications, as well as business in the regions of the USA, Asia/Pacific and the Middle East. In this connection, he is also directly responsible for managing the subsidiary in the USA as CEO and President of Phoenix Solar, Inc. CFO Manfred Hochleitner is responsible for the areas of Finance and Administration, Internal Audit, Legal, Compliance and Investor Relations. Our European subsidiaries also report to him. Dr. Murray Cameron was responsible for Business Support International until the end of the 2016 financial year. He relinquished his responsibility as Executive Board Member as of December 31, 2016 when his contract expired.

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

3.2 LOCATIONS

Our operating subsidiaries (as of December 31, 2016)


Phoenix Solar AG,
Germany
(since November 1999)
Phoenix Solar SAS,
France
(since September 2009)
Phoenix Solar L.L.C.,
Oman
(since December 2009)
Phoenix Solar S.L.,
Spain
(since April 2006)
Phoenix Solar Philippines Inc.
(since September 2015)
Phoenix Solar Inc.,
USA
(since September 2010)
Phoenix Solar M.E.P.E.,
Greece
(since June 2008)
Phoenix Solar Pte Ltd.,
Singapore
(since December 2006)
Phoenix Solar Yenilenebilir
Enerji A.Ş., Turkey
(since December 2016)
Phoenix Solar Sdn Bhd,
Malaysia
(since September 2010)

Phoenix Solar AG maintains an active presence on key photovoltaic markets through its subsidiaries and representative offices, and offers its products and services worldwide. Phoenix Solar AG maintained branches on three continents through its operating subsidiaries in the 2016 financial year.

Our subsidiary in San Ramon, California, covers our currently most significant sales region, the USA. The branch office in Scottsdale, Arizona, with its growing workforce is developing itself into a second pillar.

For the last ten years, the subsidiary in Singapore has served the high-growth markets of Southeast Asia (including the Philippines and Thailand, for example), and coordinated the Group's business in that region. Local subsidiaries in Manila (Philippines) and Kuala Lumpur (Malaysia) also operate in our Asia/Pacific region.

We have also been active in the Middle East region since 2009. We are currently working on a local basis especially in Turkey and Jordan, where we won several project orders in 2015. This shift in regional focus areas prompted us to establish a commercial unit in Ankara in the 2016 financial year. We founded a subsidiary there in December 2016.

In Europe, Phoenix Solar is present in France, Spain and Greece. During the course of the 2016 financial year, we sold Bâtisolaire 3 SAS, Champagne au Mont d'Or, France, which operated one of the two photovoltaic power plants we held in our portfolio at the start of the year. We continue to operate the power plant in Italy.

Along with the Group headquarters in Sulzemoos near Munich, which now provides only the holding company functions for Phoenix Solar AG, the Group's main locations are located in San Ramon (California, USA), in Singapore, in Ankara (Turkey), in Lyon (France), in Athens (Greece), in Madrid (Spain), Manila, (Philippines) and in Kuala Lumpur (Malaysia).

3.3 BUSINESS SEGMENTS AND BUSINESS MODELS

As a globally operating photovoltaic system integrator, Phoenix Solar plans, builds and operates large photovoltaic power plants. The turnkey assembly of such solar systems as our core competency includes the procuring of all necessary components and services.

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

The actual construction order is not issued until this part has been largely concluded. A highly specialized general contractor generally takes responsibility for this part of the project, referred to in the sector as EPC (Engineering, Procurement and Construction). This is the area in which Phoenix Solar specializes. Our product range includes the necessary planning services, securing the requisite components in close coordination with the customer, and managing large-scale building site, which reach dimensions of 200 and more football fields in the USA, as well as the turnkey construction of the complete photovoltaic plant. In this context, we prioritize detailed execution planning and the agreement of milestone payments by the client in line with the progress of construction. Only in rare exceptional cases are we prepared to pre-finance projects, and any such funding will be minor at best."

We identify our significant competitive advantage in engineering, in other words, the detailed design and planning of the plant. Our many years of experience in optimizing photovoltaic power plants and cross-disciplinary knowledge of the necessary technologies and components, as well as purchasing markets, enable us to constantly provide our customers with systems and with the aim of yielding returns for them above the sector average. In this context, customers appreciate our ability to already calculate and submit in advance several different arrangements with differing components and construction alternatives, to thereby give them further possibilities for optimization. This enables the identification of conflicts between objectives such as space consumption, maximum performance and construction time, in order to resolve them as best possible in their interest.

By contrast, we generally mandate tried and tested local subcontractors with the actual construction execution, although we continue to oversee and manage building work.

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

We supplement this range of products and services through other services, particularly in the USA. We also support our customers in the coordination, securing and realization of the necessary financing, as well as in dealing with complex formal approval procedures. We have qualified and experienced employees at hand for these services, too. This can enable us to already participate in individual parts of project development, thereby improving our position in relation to any subsequent awarding of a construction order. In 2016 we also acquired a minority interest in a project company in the USA for the first time, to strengthen our position as an EPC provider.

In such service offers, we can highlight our many years of experience, the fact that we deliver on budget and on time virtually without exception, and consequently our very good references. Given growing markets, many years of experience, a good reputation and excellently staffed teams, we depend on our sales function and its proximity to customers when it comes to translating our potentials into revenue and income.

Our customers include mainly energy supply companies, as well as small and large retail/wholesale, industrial and commercial companies. Important target customers also include institutional investors that are setting up investment fund models, or that hold large-scale photovoltaic plants in their own portfolios.

With this business model, Phoenix Solar covers the segments for high-performance grid-connected photovoltaic system dimensions – from commercial and industrial rooftop systems (C&I) from around 500 kW of peak output (kWp) in the "Commercial and Industrial Rooftop" market segment, to large-scale power stations of up to 100 MWp and even above in the "Utility Scale" market segment.

The company's strategic development includes a trend to covering the value chain in greater breadth. This includes considerations concerning establishing a business area for project development. In 2016, we also became actively involved with our own funds in a development project in the USA. Further steps in this direction are being examined.

In early 2016, one smaller subsidiary was still also a wholesaler for complete solar electricity plants, solar modules and accessories to an extremely minor extent. This operating activity, which once dominated our business, has meanwhile been shut down completely. The previously usual reporting of the separate operating segments of "Power Plants" and "Components and Systems" is no longer meaningful, and has been abandoned as a consequence.

Instead of the previous division into "Power Plants" and "Components and Systems" in our segment reporting, from the consolidated financial statements for the year ending December 31, 2016, we consequently present the results from our sales regions as well as from the holding company. More information is provided in section 7 of this management report as well as in the notes to the consolidated financial statements.

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

As a manufacturer-independent systems supplier, Phoenix Solar is nevertheless always at the cutting edge of technology. Furthermore, the company is able to tailor its offering of products and services to suit individual customers' specific requirements, and regularly adds new technologies and innovative products to its existing portfolio, thereby offering its customers optimal solutions on the basis of good cost/benefit trade-offs. For this purpose, as well as to optimize our purchasing and supply processes, we set up a central supply chain center in 2016 and appointed supply chain managers at the main regional companies. With this organization, we are screening the entire market to constantly offer our customers optimal solutions on competitive terms and also strengthen our profitability.

In 2015, we initiated discussion about "System 2020" with leading component manufacturers. Although we set other priorities in 2016, we will work further on new system technology approaches to make further decisive improvements to the competitiveness of commercially operated systems.

3.4 EMPLOYEES

As of the end of the 2015 financial year, the company employed 78 individuals (excluding Executive Board members, temporary help staff and trainees), compared with a total of 121 Groupwide as of December 31, 2016. This reflects hiring in all three main sales regions, especially in the USA and the Middle East, as we adjust human resources to reflect the growing business volume.

An annual average of 107.5 full-time equivalents were employed Groupwide (excluding Executive Board members, temporary staff and trainees; 2015: 84). We continue to endeavor to keep fixed costs at an appropriate level. Firstly, applicants only receive fixed employment contracts if they already have sound sector experience. Secondly, temporary tasks are performed by qualified external freelancers, where required.

At the end of the 2016 financial year, the Group employed staff from 15 nations and all age groups, and from a wide variety of backgrounds. Of the workforce, 27.3 percent (excluding Executive Board members and temporary staff) comprised women (2015: 31.3 percent). At the end of the 2016 financial year, the share of women holding first-level management positions below Executive Board level stood at around 0.0 percent. The Phoenix Solar Group employed two trainees at the end of 2016.

As we focused all our efforts on laying the foundations for renewed growth, the further development and further training of staff was not pursued with the intensity we aimed for in the 2016 financial year. The bases are currently being created to also restore such matters within the company to a level in line with needs.

This includes resuming the systematic planning, implementation and evaluation of training measures for staff from the various specialist departments of the holding company, and initially from some selected subsidiaries. These measures are occurring as part of the quality management system that again enables Phoenix Solar AG and two subsidiaries to successfully undergo DIN EN ISO 9001:2015 certification in the 2016 financial year. A further certification is planned for spring 2017.

Our staff play a significant role in the success of our business. As our competitive advantage is based significantly on our team's qualifications, only proven solar sector personnel who already command extensive experience and do not require induction periods are employed as new operational staff. We offer them a performance-based corporate culture based on open communication, defined and transparent processes, and clear focus on maximum customer benefit and utility.

4 GENERAL CONDITIONS

In each of our individual markets, demand for our services depends to a great extent on whether investors, corporations, the public sector and private companies are prepared to invest in photovoltaic systems. Environmental awareness and cost savings represent important motives in this context. The globally observable trend to cleaner energy generation is also reflected in rising demand for photovoltaic systems.

For Phoenix Solar, one of the core elements of the company's philosophy and corporate strategy has always been to participate in all activities entailed in the global revolution toward renewable energy sources – especially relating to photovoltaics. We regard it our chief task to contribute to a significant reduction in greenhouse gas emissions. Through constructing photovoltaic power plants worldwide with aggregate nominal output of around 153.7 MWp in 2016, we have ensured that approximately 3.9 million tonnes less CO_2 is emitted over these systems' lifespans.

The wish to make a contribution to protecting the environment and resources through deploying renewable energies not only forms the foundation of corporate activity for us, but is also shared by entities and individuals globally. This is undeniably a widely held motive that helps to further boost worldwide demand for photovoltaics. No reliable data are available about the characteristics of such desires and motives, and the influencing factors behind the activities that are undertaken, however.

Maintaining secure, affordable and sustainable electricity supplies for a growing global population, or even just establishing such supplies in the first instance, can be regarded generally as one of the major challenges confronting the world. A total of around 1.2 billion individuals currently have no access to electrical energy, according to data from the International Energy Agency (IEA).

Subsidies for energy generation fell in 2015. In this context, the utilization of fossil fuels was only subsidized to the tune of USD 325 billion worldwide (2014: USD 493 billion), while governments invested more in expanding renewable energies than in 2015, but still only around USD 150 billion of subsidy funds (2014: USD 135 billion).

Although the deploying public sector resources to promote the production of electricity from renewable energy sources can be helpful, continued strong investments together with the further price decline show the great extent to which these technologies, in particular, have become more competitive. Compared with fossil fuel sources, they have long been more than competitive in many places.

A total of around USD 288 billion was spent worldwide in 2016 to expand renewable electricity production (2015: USD 349 billion). The 18 percent decline is partly attributable to a further sharp fall in cost prices for modules and components. Worldwide photovoltaic sector capacity was expanded by more than 70 GWp, the highest new capacity construction level ever achieved.

Worldwide production of electricity more than doubled between 1990 and 2014, according to IEA data, and will grow further in the future. Depending on influencing factors such as greater energy efficiency, policy-led energy savings measures, or technical progress, demand is set to grow from around 23,800 terawatt hours (TWh) in 2014 to between approximately 34,000 TWh and 42,500 TWh by 2040. The share of renewable energies in generating this volume is forecast to increase from currently around 23 percent to 37 percent by 2040.

This goes hand-in-hand with expanding the requisite capacities: in the International Energy Agency scenario to which the highest probability is ascribed, by 2040 four times as many new electricity production plants harnessing renewable energies will be built as new coal power plants. With a nominal output of around 4,000 GWp, they will account for 60 percent of this growth. In turn, photovoltaic plants will represent a 35 percent share of this. The technologies and markets in which Phoenix Solar AG is active will consequently continue to report significant growth in the future.

Photovoltaics brings its benefits to bear in satisfying this growing demand: solar electricity is climate-neutral, and can be generated locally, including in small units with minimal input. Plants with nominal output of around 70 GWp (2015: 56 GWp) were newly installed worldwide in 2016. Given the 85 percent fall in prices for large systems between 2009 and 2016, photovoltaics has matured into a competitive technology that is no longer dependent on subsidies. For the first time, prices to construct photovoltaic plants were agreed in some tenders in 2016 below those for onshore wind generators.

Given this background, worldwide photovoltaics capacity will increase almost eightfold from 176 GWp in 2014 to 1,405 GWp by 2040, then contributing around 5 percent of the output required for global electricity consumption, at around 2,137 TWh, in the most probable scenario presented in the IEA's World Energy Outlook 2016. The IEA thereby again upgraded its forecast: in the previous year's World Energy Outlook, the agency had still expected 1,066 GWp photovoltaic capacity for 2040, and nominal output of 1,521 TWh.

The extent to which these upgraded forecasts might also be overtaken by actual trends remains to be seen. These trends are also not being stopped by political changes in individual markets, but in the most extreme case only slowed.

The commitments of the global Paris Climate Summit in December 2015 established a framework that requires many countries to change their energy policies. To reduce CO_2 emissions, the global climate agreement requires, among other measures, a further expansion of renewable energy use. The extent to which this new policy is also actually implemented comprehensively and everywhere depends on many circumstances beyond our control. We nevertheless regard this agreement as a major step towards limiting global warming, and to protecting our planet against continued environmental damage.

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

The financial and economic aspects of the readiness to invest in photovoltaics first concerns the question as to the extent to which investors can rely on general conditions on local energy markets delivering sufficient legal and planning security. Assuming this to be the case, the returns generated by photovoltaic systems then become the decisive factor. In turn, such returns depend on various factors. The investment expense, in other words, the level of capital employed, is directly associated with the purchases costs of the modules and other components. If the capital required is borrowed, financing conditions also exert a not insignificant effect on returns.

Depending on market conditions, income generated may depend on the feed-in tariffs granted, or selling conditions. Tax relief is granted in some places. Although such support helps the solar industry overall, they are meanwhile no longer necessary to profitably utilize solar electricity. This is due to the massive price reductions for solar components over the past years. In consequence, solar energy today is more favorable than all conventional forms of energy generation. As the consumption of solar electricity generated by individual households is now much cheaper in many places than buying from local energy utilities, the savings made, in other words, the difference between the cost of producing and of buying energy, is becoming increasingly important.

For the first time, the International Energy Agency is highlighting the widening gap between on the one hand electricity prices on electricity markets and in wholesale trade, and on the other hand end-consumer prices (whether industrial or private). Especially in Europe, wholesale prices no longer cover the average production costs of traditional generators. For all regions analyzed apart from Japan, the International Energy Agency expects stable or rising electricity prices medium-term. Given the further increasing competitiveness of solar technologies, such a trend continues to offer good opportunities to expand photovoltaic.

4.1 PURCHASING MARKETS AND PRICE TRENDS

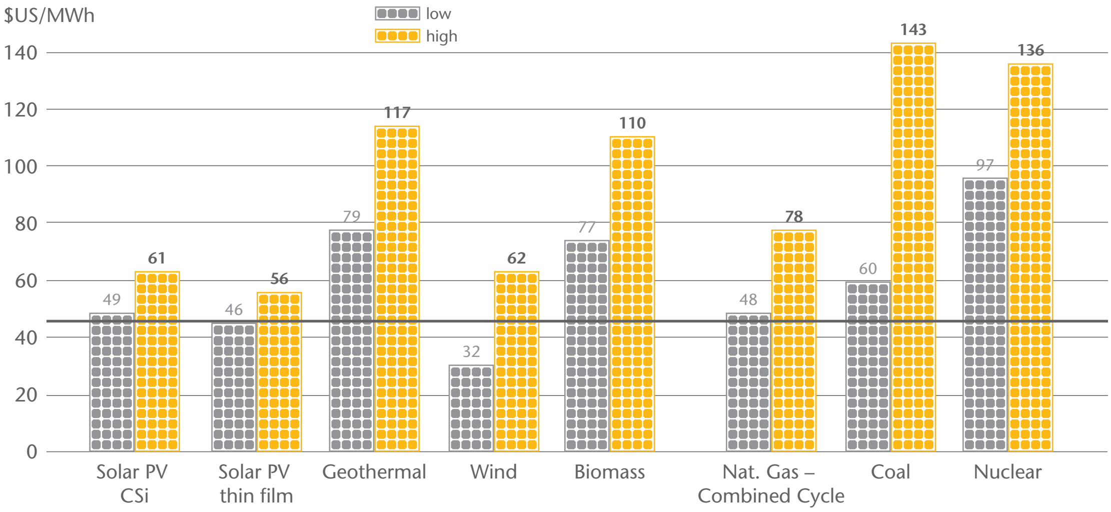
Construction costs for photovoltaic systems have dropped so considerably over the past years that the total production costs (Levelized Cost of Energy, LCoE) of photovoltaics in larger systems, especially utility-scale, are already more than competitive with coal, gas and nuclear generated electricity. This favors our business activity: the engineering and construction of these types of solar power plant account for a significant proportion of our business volume, favorable cost prices are reflected in calculating the returns from plants, and consequently also enhance the attractiveness of our services for customers.

The LCoE figure enables different energy sources' system costs to be compared. Key factors in the calculation include investment, capital costs, amortization, and maintenance over the operating life. For photovoltaic power plants with polycrystalline modules, the figure was stated at between USD 49 and USD 61 per MWh in 2016, depending on regional conditions (2015: between USD 58 and USD 70). Production costs for nuclear electricity continue to lie between USD 97 and USD 136, for coal power plants between USD 60 and USD 143 per MWh (2015: between USD 65 and USD 150) and for gas turbine power plants between USD 48 and USD 78 per MWh (2015: between USD 52 and USD 78). Any state subsidies or state add-on costs are not included.

The sharp reduction in the LCoE in 2016 is mainly due to the fall in prices for solar modules. This is because two of the key factors included in the calculation of total production costs (Levelized Cost of Energy, LCoE) include the costs of purchasing the solar modules, as well as so-called "balance-of-system" (BoS) costs.

Following a phase of relatively stable solar module prices between 2013 and 2015, prices in the second half of 2016 dropped massively in all regions of the world. It is striking in this context that previous price differences due to regional or national import restrictions against Chinese solar modules have largely been equalized. The main reason for this is a supply overhang as well as the fact that practically all large Chinese manufacturers have established production at locations outside China where no restrictions exist, including in the USA or the EU, for example.

Levelized cost of energy analysis (unsubsidized)



Source: Lazard, Levelized Cost of Energy Analysis, 12/2016. This graph is not form part of the auditor's report. It serves solely as additional graphical information.

Purchase prices in unregulated markets such as the Middle East and APAC in early 2016 lay between 0.46 and 0.50 USD/Wp, compared to between 0.60 and 0.65 USD/Wp in the USA due to import barriers. In early 2017, prices in Jordan and APAC amounted to between 0.34 and 0.37 USD/Wp, compared with a level in the USA only slightly higher between 0.36 and 0.39 USD/Wp. In EU markets, too, prices have reduced sharply from around 0.50 EUR/Wp in early 2016 to between 0.34 and 0.38 EUR/Wp.

Two of our markets are not coupled to this price trend:

In Turkey, huge import restrictions on all crystalline modules not produced in Turkey result in prices of between 0.46 and 0.48 USD/Wp. In France, purchase prices lie between 0.45 and 0.50 EUR/Wp due to a particular CO_2 certificate.

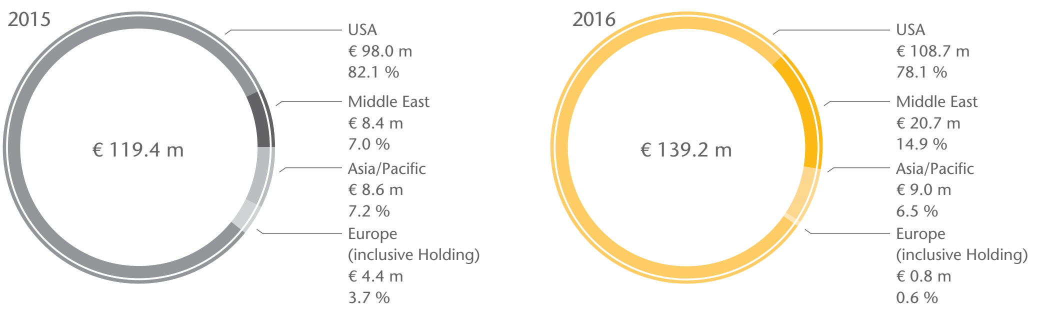
Purchase prices for inverters and mountings also reduced considerably in 2016, leading to a marked decrease in system costs in all markets. The further dissemination of 1500 V technology in inverters and systems will support further cost reductions. We have developed a global cost roadmap for all markets in the Phoenix Solar Group as an important management and monitoring tool to measure system costs. The aim is always to be one step ahead of such price changes in order to continue to offer our customers the best prices.

The strategic objectives in the supply chain area were implemented in 2016. A global supply chain strategy was realized and the personnel structures required for cost-efficient purchasing were created in the regions. Processes and information flow in the supply chain area were standardized worldwide. A system of globally preferred suppliers was established for the main components, thereby strengthening Phoenix Solar's strategic significance for these suppliers. This has already led to considerable cost reductions in purchasing and an enhancement of the Phoenix Solar Group's competitiveness and profitability in 2016.

4.2 SALES MARKETS

Photovoltaics are becoming one of the mainstays of global, climate-neutral electricity supplies. Although specific markets can exhibit extremely different growth rates, European sector association Solar Power Europe anticipates continuous growth in annual newbuild Photovoltaics capacity worldwide. In their most optimistic scenario, expansion construction figures are set to more than double between 2015 and 2020 to 120.2 GWp. Although expansion construction might increase by around just 24 percent over this period – imputed in the lowest case – this nevertheless also signifies further growth opportunities for our company.

Revenues by region



4.2.1 USA

The USA again represented our most important sales market by a wide margin in the 2016 financial year. We achieved 78.1 percent of our consolidated revenue there, at EUR 108.7 million (2015: EUR 98 million).

The market volume in the United States has doubled with newly constructed photovoltaic plants in a scope of more than 14 GWp (2015 newbuild: around 7 GWp). The utility-scale ground-mounted market segment we address grew even faster than the overall US market to 9.5 GWp (2015: 4.2 GWp). Following a very strong 2016, we anticipate a reduction for the overall market in the USA for 2017, and potentially also continuing into 2018 – although not below the already very good added capacity figures for 2015, as well as a subsequent return to further growth. Irrespective of potential fluctuations in overall market volume, what counts for us is to consistently exploit the opportunities on offer.

All market forces are currently favoring the strong trend towards renewable energies. It seems hardly possible to eliminate the benefits of nonfossil energy production through the political influence of central government.

Among other factors, the federal states enjoy some independent competences – including some far-reaching competences – as well as some ambitious energy policy goals. Many states have imposed quotas on energy supply companies, regulating how much electricity they must provide from renewable sources in the future. Utilities are seeking to meet these requirements by operating their own power plants, or by sourcing solar electricity from direct sellers. These structures, as well as the surface area available, have fostered the construction of very large ground-mounted power plants. At the same time, however, the number and accumulated output of newly installed mid-sized and smaller systems is growing significantly.

Many federal states will not permit their political capacity to act be diminished, irrespective of whether they are governed by Democrats or Republicans, as the US solar industry has meanwhile also become an important employer. With more than 300,000 employees, it is meanwhile the largest branch of the US energy sector in terms of jobs. At the start of 2017, the governors of California, Massachusetts, New Mexico, New York and Ohio, among others, emphasized they have no intention of scaling back their plans to promote renewable energies ("State Renewable Energy Portfolios"). On February 13, 2017, eight Republican and twelve Democratic governors addressed a letter to the White House in which they emphasize that photovoltaics creates and helps secure jobs especially in rural areas, and demanded a continued focus on support for renewable energies.

Quite aside from political conditions, the economic viability of solar electricity production will also advance the further expansion of photovoltaics in the USA. Along with the aforementioned reduction in production costs for photovoltaic plants, selling prices for electricity are also relevant for competition with other energy sources. Average electricity prices for companies and private households in the USA have risen by around 17 and 32 percent respectively over the 2006 to 2016 period. This trend is also evident in another statistic: federal states that have not approved any explicit policy to promote renewable energies, such as Utah, Texas and Georgia, have also meanwhile advanced to the top of the league in terms of solar expansion. For this reason, too, we assume all segments of the photovoltaic offering in the USA will tend to recover from a temporary period of market cooling, and resume growth.

Overall for the USA for 2017 we expect newly installed output of 11.7 gigawatt peak (GWp), including 7.3 GWp of utility-scale plants. Capacity expansion might initially dip slightly to 11.0 GWp In the following year, 2018 (including 6.0 GWp of utility-scale). Further growth is then anticipated from 2019.

Irrespective of the absolute size or trend of the market, our discussions with customers and potential customers shows that they have no wish to alter their plans to invest in photovoltaic. Our sales function sees its task in decisively exploiting resultant opportunities.

4.2.2 ASIA/PACIFIC

We generated around 6.5 percent of our consolidated sales revenue in our Asia/Pacific region in 2016 (2015: 7.3 percent), which is served by our subsidiaries in Singapore, Malaysia and the Philippines. Our company in the Philippines is currently gathering momentum in the business with commercial & industrial rooftop systems. In 2016, we constructed photovoltaic rooftop systems with nominal output of 3 MWp. For 2017, we have already received our first new orders, with numerous new offers and business prospects also already in the pipeline.

Success in the Philippines and our successful performance in Singapore and Malaysia have brought us the opportunity to engage in intensive negotiations with several multinational companies. These companies are pursuing environmental objectives in the region and beyond, which they hope to achieve by deploying photovoltaic in partnership with us. We have already signed a regional framework agreement with the Ikano Group, IKEA's Southeast Asia franchise owner, for example. Similar agreements with other companies are currently being negotiated.

We nevertheless also started to encounter some headwind. Southeast Asia's largest solar markets, Thailand and the Philippines, contracted significantly in 2016. After 2.0 GWp in 2015, orders for plants with a cumulative nominal output of just approximately 600 MWp in total were issued in 2016. A trend turnaround is already evident, however, and we anticipate renewed market growth beyond the 2016 level not least due to the now rapidly developing market in Australia for utility-scale ground-mounted systems. Most countries in the region have now announced ambitious expansion targets for renewable energies, or have already implemented them and are supporting them with subsidies and other assistive measures.

The Philippines: 2016 saw a transition from the previous program to construct 500 MWp of utility-scale ground-mounted projects subsidized through the national feed-in-tariff program to a market approach driven by the Renewable Portfolio Standards (RPS). The RPS requires each distribution utility (DU) to purchase a minimum of 10 percent of power from renewables. Since current renewable energy production is not spread evenly across the country, individual DUs are pursuing renewable energy projects to meet this standard. We are strengthening relationships with developers who are well positioned with local DUs with plans to execute solar photovoltaics projects.

During this current upheaval in the utility-scale ground-mounted market, the C&I market is growing with increasing speed, with the large family-owned shopping mall chains leading the market. These projects are economically feasible without government subsidies. Our Philippines subsidiary has just begun execution of the next phase of projects together totaling 3 MWp, and is well positioned to win further orders of this type.

Thailand: The Thai government, with its Thailand Alternative Energy Development Plan (AEDP 2015-2036), has set up a program to achieve installed renewable energy capacity of 6 GWp by 2035. To supplement this, the National Energy Policy Council (NEPC) set up an "Agro-Solar Program" in September 2015 to support the construction of solar farms. The C&I rooftop market is gaining momentum as the economics enable projects to move forward without any government incentive: multinational companies continue to seek EPC partners able to roll out transnational solar strategies – a task for which we are well positioned.

Singapore: Singapore continues to be dominated by commercial and industrial (C&I) rooftop systems. Our subsidiary there boasts a large number of well-regarded reference projects including the recently completed 3.2 MWp project for a global aerospace company. This customer is using this project as a reference project to proceed with a global solar rollout and engaging Phoenix Solar to participate in the tender. In Singapore, the trend to leasing rooftop systems is no longer as dominant as a year ago. Customers are increasingly buying systems instead. Singapore is also pursuing an ambitious plan to deploy floating photovoltaic systems: 200 MWp of floating solar is to be constructed over the next five years.

Our subsidiary ranks among the competitors that qualified for the world's largest test center for floating solar systems. The Solar Energy Research Institute of Singapore at the National University of Singapore has launched a two-stage technical and financial feasibility study into deploying large-scale photovoltaics systems on inland waters. In the first stage, the hectare-sized test area serves to evaluate ten different approaches to construct and operate such floating systems, each of which comprises around 100 kWp of nominal output. After the six-month analysis, only the two most appropriate systems will advance to the second stage in which the developing companies will each construct a 1 MWp system based on their model.

Malaysia: Further implementation of solar electricity generation still depends mainly on state initiatives. The 2015 amendment to the Renewable Energy Act sees renewable energies accounting for 11 percent of electricity generation by 2020. In 2016, multiple state initiatives enabled electricity purchase contracts to be concluded for over 200 MWp of ground-mounted projects, and a similar volume is expected up to 2020. Additionally, the government has structured the awarding of licenses for C&I systems more transparently, with this market segment gaining momentum consistent with other countries in Southeast Asia.

Australia: The solar market in Australia has been dominated to date by the residential segment and small C&I rooftop systems with nominal output under 100 kWp. This has been driven by the Australian government's Renewable Energy Targets and associated Green Energy Credits. The cutoff between small-scale and large-scale credits is at 100 kWp. Large-scale Green Energy Credits were not priced high enough to justify investment in large-scale photovoltaic systems. The government remedied this in 2016, with the interplay of higher credits and falling production costs kicking off significant investment in large-scale ground-mounted solar projects. Individual states have also set up their own supportive programs. Systems with more than 700 MWp of nominal output together will prospectively be under construction by the end of 2017, a volume that can probably be achieved each year up to 2020. Phoenix Solar is originating a growing pipeline and actively pursuing projects in partnership with well-established Australian construction firms.

4.2.3 MIDDLE EAST

We achieved further considerable progress in the Middle East region in the 2016 financial year. The region contributed EUR 20.7 million to consolidated revenues, equivalent to 14.9 percent of the total (2015: EUR 8.4 million, corresponding to 7.0 percent), and it enjoys good further growth prospects despite very different conditions in the region's various countries, and especially the critical political situation.

We are currently focusing particularly on Turkey and Jordan, where we won several new projects in 2016, successfully completed others, and established good relationships with important customers. The Solentegre photovoltaic power plant in Elazığ with nominal output of 9.1 MWp, which we constructed for Akfen Renewable Energy, was the first photovoltaic power plant officially licensed by the Turkish government and is also currently the largest solar system in Turkey. It received a First Mover Award from an international consortium led by the German CleanTech Institute.

Turkey faces not only growing energy demand but also rising electricity prices. This situation had prompted the Turkish government by 2010 to place a greater focus on renewable energy generation. In its 2014 strategy plan, the government set the target of boosting renewable energies' share of the energy mix to 30 percent by 2023. This target has already been reached with very high deployment of hydropower, but the 5 GWp photovoltaic capacity target remains a distant objective. This positive development is offset by uncertainty about the Turkish government's stance on Chinese module imports and potential levying of higher grid charges. Despite this, we anticipate capacity additions of more than 500 MWp per annum for 2017 and subsequent years.

The partnership with the Asunim Group was wound down at the end of 2016. We have founded our own subsidiary in Ankara, and already hired additions to its engineering team in line with our requirements relating to core functions of our process organization.

Jordan is a small photovoltaic market where we have already successfully gained a foothold. In 2016, we acquired orders for new projects from two banks, and are in talks about further orders. Depending to a relatively significant extent on energy imports, Jordan also took an early decision in favor of promoting renewable energies. Public-sector utility-scale photovoltaic projects are subject to a tendering model for plant operators, whose third round comprising 200 MWp for 2017 has been announced. We assume more than 300 MWp will be newly built in 2017 in Jordan, while the growth pace might slow over following years.

The most recent announcements by Saudi Arabia's royal government that it aims to invest massively in solar power in the future potentially opens up additional business prospects. Our plant at the King Abdullah Petroleum Studies and Research Center (KAPSARC) can serve us as an excellent reference when it comes to tapping new opportunities in this context.

4.2.4 EUROPE (INCLUSIVE HOLDING)

The situation on all European markets is characterized by pronounced instability and legal uncertainty in the aftermath of the sovereign debt crisis and resultant consolidation efforts by various governments. In the European countries our subsidiaries address demand has long been driven by government-backed measures. In most instances, satisfactory feed-in tariffs were granted. These tariffs were abolished in many instances, with existing power facilities being subsequently and partly retrospectively charged with taxes and levies, however.

The combination of these factors has led to considerable uncertainty for potential buyers and investors and resulted in the photovoltaic market drying up completely in some countries. The past years' trend has not yet enjoyed any fundamental turnaround, continuing as a consequence. Compared with new installations totaling around 17 GWp in Europe in 2012, following constant decline this figure recovered for the first time to 8.6 GWp in 2015, only to drop again by 20 percent to just 6.9 GWp in 2016. The Phoenix Solar Group's European business continued a sharp decline given this backdrop. By 2016, it accounted for a share of just 0.6 percent of consolidated revenue, at EUR 0.8 million, compared with as much as 3.7 percent in 2015 (EUR 4.4 million).

As far as 2017 is concerned, indications are gathering of an initial pickup in business activity in individual markets, prompting us to anticipate sales revenue growth in this region too.

Spain: In Spain, 2016 proved to be a further very unsatisfactory year in terms of added photovoltaic construction. Although around 55 MWp was newly constructed (2015: 47 MWp), according to data from sector association Unión Española Fotovoltaica (UNEF), solar electricity's share of Spanish electricity production failed to increase compared with previous years. As already in 2015 and 2014, photovoltaic accounted for a 3.1 percent share of the country's electricity supplies in 2016, according to data from Spanish grid operator Red Eléctrica de España.

The political situation in Spain has tended to ease somewhat compared with the previous year, insofar as a government capable of acting now holds office. Its powers-that-be have dried out the Spanish market since 2012 with a number of measures directed explicitly against photovoltaic deployment. The government recently appears to be stepping back from this long-standing policy, however. At the end of December, the Spanish energy authority announced a technology-neutral tender for 3 GWp for the first half of 2017. In other words, it can now also comprise photovoltaic again. The opposition parties brought draft legislation in early 2017 to abolish the "solar tax" and promote own consumption. These developments might indicate that conditions to build photovoltaic power plants in Spain could be improving again.

Sector association Solar Power Europe forecasts an annual growth rate (CAGR) of 6 percent for photovoltaic capacity for Spain in the period up to 2020. Our Spanish subsidiary has started to establish a new sales pipeline and is conducting talks with interested customers.

France: As of the 2015/2016 new year, we realigned our subsidiary to become a pure EPC provider. The previous trading business no longer plays any role. As part of this, a new managing director with sales experience was appointed and the company was equipped with the requisite DIN EN ISO 9001:2008 and DIN EN ISO 14001:2004 certification. France ranks among the European countries that remain interested in significantly expanding electricity production capacity through photovoltaic. After around 450 MWp was newly connected to the grid during the first three quarters of the year, installed photovoltaic capacity in France reached a level of 7 GWp by the end of September 2016.

France generated a total of 8.3 TWh of electric energy by photovoltaic means in 2016. Consequently, almost 20 percent of electricity generated in France already derives from renewable sources (2015: 18.7 percent), with an unchanged 1.6 percent of electricity production being attributable to photovoltaic. Based on 2015 data, however, the country still fails overall to reach the targets it set itself for adding renewable energy capacities.

Based on the 2015 act that aims to boost renewable energies' share to 23 percent by 2020 and to 32 percent by 2030, the government submitted its first multi-year energy program on October 28, 2016. The environment ministry had already previously registered an increase in the volume of planned photovoltaic systems. Given this, sector association Solar Power Europe forecasts an annual growth rate (CAGR) of 14 percent for photovoltaic capacity for France in the period up to 2020. We assume plants with combined nominal output of more than 1 GWp might already be built again in 2017. Repositioning our subsidiary in France as a pure EPC provider enables us to refocus our sales and establish a pipeline. We might already report our first successes in the current year as a consequence.

Greece: The Greek national budget recorded a surplus of approximately 2 per cent in 2016, while the Greek economy started to show initial signs of a slow recovery, in particular in Q3 and Q4, driven mainly by the tourism and service sectors. Restrictions on capital movements are still in place but have been eased to a certain extent. The photovoltaic market remained weak in 2016, as in previous years. The net metering program issued early in the year did not produce the expected results. Only 5 MWp of new photovoltaic systems were installed in 2016 (2015: 9 MWp) according to recent data from L.AG.I.E, the Hellenic Transmission System Operator. The country's aggregate photovoltaic capacity stood at 2.65 GWp at the end of 2016, and L.AG.I.E. expects solar photovoltaic additions to reach about 500 MWp between now and 2020.

The Greek legislator is currently considering possibilities for expanded support for photovoltaic plants with nominal outputs of up to 500 kWp, and is working on improving the net metering program. Our subsidiary in Athens assumes the local photovoltaic market already has definite potential for renewed growth in 2017. One reason for this is the New Energy Program the government launched in August 2016 to promote renewable energies. In the first tender round in December, approximately 40 MWp were allocated at prices between 80 EUR/MWp and 104 EUR/MWp. From summer 2017, further tenders are to be held twice a year. Our team is currently also establishing a pipeline with projects in further countries.

5 MANAGEMENT AND SUPERVISION

The Executive Board of Phoenix Solar AG develops our Group strategy, and coordinates it with the Supervisory Board. The business strategy is reviewed annually and adjusted to reflect the dynamic development of the international solar power market and the rapid changes in market conditions for photovoltaics. The objective is to tap markets at the earliest possible date where possible and appropriate, enter into partnerships with local companies, acquire profitable orders, and establish the company as a reliable supplier. After we proved the success of our business model through significant improvements in revenue and results in the 2015 financial year, the Executive Board started with the help of external advisers to develop a medium-term corporate strategy that will strengthen our market position sustainably, and expand it. This strategy was partly implemented during the course of the 2016 financial year and adjusted or further developed as required to reflect changes in overall conditions.

The allocation of tasks and collaboration at Executive Board level are determined by a business distribution plan, and a set of rules of business procedure. The Executive Board makes joint decisions on relevant topics, and holds regular in-depth consultations on important developments in their individual remits. Along with his areas of responsibility, the CEO is also CEO and President of the subsidiary in the USA.

Please also refer to the Corporate Governance Report, which also includes the Executive and Supervisory Boards' joint corporate governance statement and declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG).

The Supervisory Board of Phoenix Solar AG, which consists of three members, consults with the Executive Board, and supervises its activities and decisions. The Executive Board consisted of three individuals during the financial year under review. Since Dr. Murray Cameron, an Executive Board Member of many years' standing, stepped down as of the end of December 31, 2016, the Executive Board consists of two individuals: Tim P. Ryan as Executive Board Chairman (Chief Executive Officer/CEO) and Manfred Hochleitner as (Chief Financial Officer/CFO).

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

Monthly management reviews between the segment directors, the national companies and the Executive Board allow business progress to be monitored, with any differences between budget and actual being identified. Appropriate countermeasures are determined, depending on the amount and significance of variances against budget, and the effects of such measures are monitored in subsequent management reviews. In addition to these reviews, from October 2016 we also conducted pipeline discussions with the individual regions every two weeks.

The management of opportunities also forms a regular topic of management reviews. At such management reviews, business prospects are discussed, and short- and medium-term measures to secure and improve them are determined. A subject of opportunities management and a key Executive Board task is also the ongoing adaptation and further development of the Group strategy, which is intended to secure sustainable growth for the Group.

Key financial indicators relating to the central goals of liquidity and profitability are particularly important, especially as part of the Group's current realignment. At the same time, only a continuation of the growth path can secure the Group as a going concern. Consequently, besides the aforementioned key financial indicators, the sales-oriented steering metrics that have been listed also comprise important performance indicators for the Phoenix Solar Group in its management of the Group.

5.1 KEY FINANCIALS

5.1.1 REVENUES

The revenue trend reflects the success of our business and sales at the top level. The budgeting of costs and earnings is based on specific revenue expectations that are agreed, coordinated and monitored constantly with the operating units and central functions.

5.1.2 EBIT

EBIT records operating profitability before interest and tax, and is consequently the central steering metric for Phoenix Solar's business, especially at the level of its subsidiaries, and forms a regular component of management reviews.

5.1.3 EQUITY

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

5.1.4 UTILIZATION OF THE CREDIT LINES

Credit lines worth around EUR 101 million were granted to the company in the context of the syndicated financing facility and its extension on March 18, 2016. The credit facility reduced to EUR 90.1 million as of December 31, 2016 due to repayments during the course of the year. Keeping within these credit lines is crucial to the continued existence of the company. To this extent, we pay a great deal of attention to liquidity planning and liquidity management. For this reason, the utilization of the credit lines is supervised and managed constantly.

5.2 SALES-ORIENTED CONTROL PARAMETERS

As part of management reviews, we are constantly closely monitoring and updating new order intake as a sales-oriented steering metric, in particular. Given the business model's logic, these comprise rolling metrics that cannot be planned or forecast precisely on the basis of either accounting periods or reporting dates. They nevertheless form essential elements of the ongoing management and controlling process.

5.2.1 NEW ORDER INTAKE

Although a high level of sales activities forms a very good foundation, it is insufficient for an actual return to sustainable growth. Achieving this goal means that the high level of activities results in orders actually being placed. For this reason, we regularly and intensively follow our key performance indicator of new order intake.

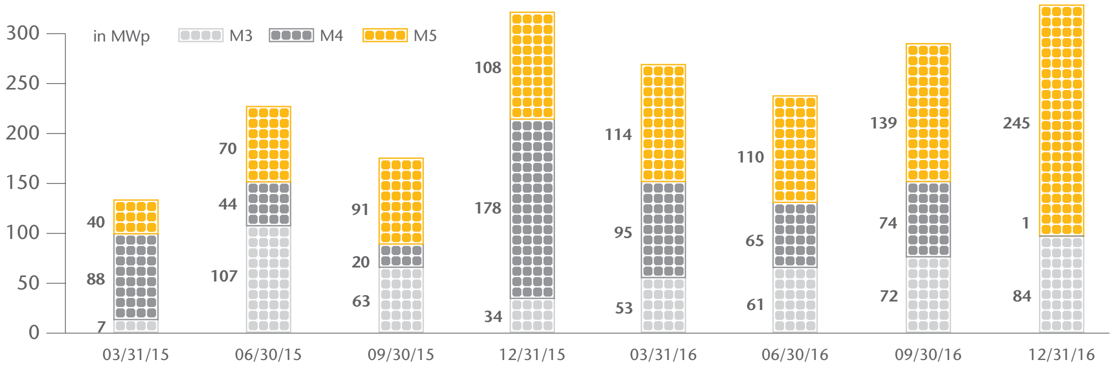
5.2.2 FREE ORDER BOOK POSITION

The free order book position refers to those order components that have been contractually secured but not yet invoiced. In other words, the free order book position describes – in simplified fashion – sales revenue that can be realized in the future. Insofar as projects can fail to materialize at all in rare specific cases, despite having been contractually agreed, the free order book position in the future will include only those projects where customers have already issued construction approvals. A reconciliation between the previously reported figures (until the third quarter 2016 inclusive) and the now valid, more reliable presentation can be found in section 7 of the management report.

5.2.3 GLOBAL PROJECT PIPELINE

In the global project pipeline, we record all forthcoming projects in a precisely determined procedure – whether in terms of sales or operationally – in five steps: from initial identification (M1) through to the qualification and offer phase (M2) through to those projects where customers have shortlisted us (M3), those already contractually secured (M4) and finally those under construction (M5). Every project is recorded according to several aspects, and weighted according to the probability of the related realization of delivery and sale. The weightings lie between 30 and 70 percent in the M3 phase. The weighting does not amount to 100 percent until phase M5, in other words, once construction has started.

Global project pipeline from March 31, 2015 to December 31, 2016



This graph does not form part of the auditor's report. It serves solely as additional graphical information.

5.2.4 OTHER

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

5.3 COMPLIANCE AND CORPORATE GOVERNANCE

To observe and disseminate high ethical standards at Phoenix Solar, a standard compliance organization that is binding on the entire Group is in force. The compliance organization reflects the Group's current positioning, and encompasses a clearly structured set of guidelines and reporting procedures. It was approved by the Executive Board and managers, and communicated to staff.

Other principles and procedures concerning corporate governance, as well as target setting as part of achieving the statutory proportion of women pursuant to Section 289a (4) of the German Commercial Code (HGB), are presented in the corporate governance statement, which is reproduced as part of the Corporate Governance Report in this annual report, and is available on the company's website at www.phoenixsolar-group.com under the menu options of Investor Relations and Corporate Governance.

6 COMPARISON OF FORECAST AND ACTUAL BUSINESS PERFORMANCE

We started the 2016 financial year with a good order book position. As of December 31, 2015, we had orders for 178 MWp that were contractually agreed but not yet under construction (M4 pipeline, but not yet M5), which corresponded to a free order book position worth EUR 148.4 million. Given this and based on planning developed with the Group companies, we had announced revenue of between EUR 180 million and EUR 210 million for the full 2016 year, and EBIT of between EUR 2 million and approximately EUR 4 million.

The characteristics of the project business include the fact that long lead times, delays and postponements lead to differences in how preliminary business arrangements, project preparation and project start actually unfold. For example, a large-scale project in the USA where the order was already issued in the fourth quarter 2015 failed to receive building approval until November 2016, with the consequence that the by far predominant proportion of its sales revenue will not already be recognized in 2016, as planned, but instead not until 2017. Our largest sales region, the USA, also fell short of planning overall mainly for this reason. Although this does not diminish the company's value, this delay was the chief reason prompting us to adjust our original forecast on November 8, 2016. As of that date, it was foreseeable that by the year-end we would no longer realize revenues we expected from this project and from a similarly postponed project in Turkey.

Especially the preparation and lead-up to large-scale projects includes a large number of parties, and follows their operational logic; as an EPC contractor, we form a part of this process in many cases, but we have no significant influence over overall scheduling. For this reason, postponements beyond certain deadlines can never be excluded, although they did not diminish the company's prospects, as a matter of principle.

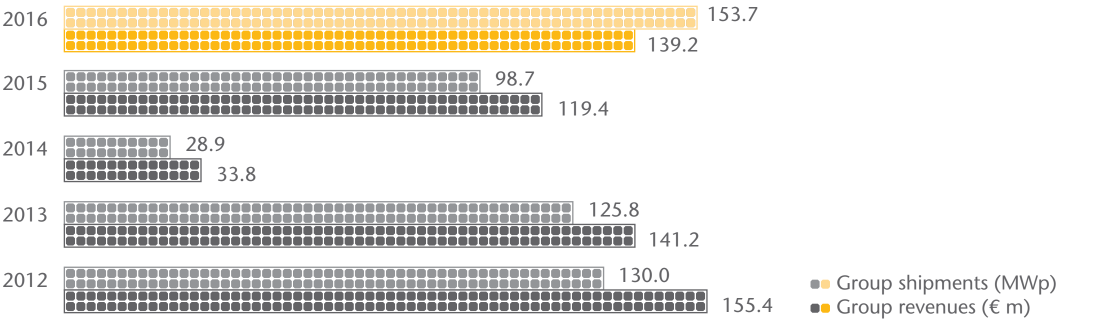
The divergence in relation to the forecast also reflected the fact that re-establishing business in the Asia/Pacific region could not be realized at the expected pace following the change of management. The pleasing development and growth of the subsidiary in the Philippines, which was founded in 2015, was unable to offset the slow restart on other markets in the region. At the start of 2017, we now see how new possibilities are opening up for sustainable business development and growth: among other activities, we are increasingly entering into partnerships with international groups as customers that are ordering commercially utilized photovoltaic rooftop systems for several branch operations at the same time.

The management has decided on sustainably mastering the inherent challenges of the project business, especially its volatility. A significant contributory factor in this context can be to lift business volumes to a level where individual delays or shortfalls do not jeopardize target attainment overall. To achieve this gradually ranks as one of our targets for the 2017 financial year and coming years.

On the cost side, other operating expenses were up by 14.0 percent, a rate of increase below the 16.6 percent sales revenue growth rate, as we also forecast. In terms of personnel expenses, by contrast, it is evident we have already hired extensively again in light of the actually occurring and future forthcoming business growth. The 48.8 percent rise in personnel expenses – ahead of the rate of topline growth – was partly offset in income through the considerably improved gross profit margin, however.

As a consequence, the EUR 139.2 million of consolidated revenues that we actually achieved, and the operating loss before interest and taxes (EBIT) of EUR 0.6 million, lie below the original forecast range, but are in line with the revised forecast range.

Revenues and shipments 2012 – 2016



The specific key figures reported the following trends:

REVENUES

Actually achieved revenue of EUR 139.2 million was EUR 40.8 million, or 22.7 percent, short of our original forecast of EUR 180 million to EUR 210 million. November's revised forecast of EUR 135 million to EUR 150 million was reached, however.

EBIT

Although EBIT of EUR 0.6 million was below the original forecast of between EUR 2 million and more than EUR 4 million, it achieved the revised forecast of between EUR 0.5 million and EUR 2 million thanks to the significant gross profit margin improvement. EBIT was back in the positive range for the first time since 2010.

EQUITY

Based on planning for 2016, we had assumed that consolidated equity and the consolidated equity ratio would not recede further. As revenue and results in the 2016 financial year fell short of the planning targets, however, the renewed consolidated net result led to a further reduction of equity of EUR 4.6 million, from EUR - 7.6 million to EUR - 12.1 million. Due to the reduction in total assets (mainly a consequence of the disposal of the company in France), the equity ratio decreased from - 14.1 percent to - 26.0 percent.

As the Group does not constitute a legally independent company in itself, no direct going concern risks arise for the company as a result of its negative equity. Solely the equity of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code [HGB]), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 5.7 million as of December 31, 2016, equivalent to a 8.6 percent equity ratio (December 31, 2015: EUR 6.6 million, corresponding to a 12.3 percent equity ratio).

CREDIT LINE UTILIZATION

The postponement of the large-scale project in the USA required us to utilize our overall credit line during the course the first quarter of 2016 to a greater extent than forecast. Average utilization of our lines amounted to around 68 percent in 2016, compared with expected utilization of 65 percent. Requirement for working capital funding and the provision of guarantees was at the planning level in this context. The overall credit line reduced considerably, however, as we utilized the proceeds from the disposal of our project company Bâtisolaire 3 SAS, Champagne Mont d'Or, France, for an extraordinary redemption.

NEW ORDER INTAKE

New order intake during the course of the full year fell significantly short of our expectations. Contracts worth a total of EUR 46.3 million were signed, in other words, considerably less than in the 2015 financial year and also less than the forecast EUR 160 million to EUR 190 million. Although new order intake in the project business could frequently fluctuate, especially due to prolonged lead times, the Executive Board is in no way satisfied with this level. Discussions with the sales function were further intensified from the last quarter 2016 for this reason. In addition, the CEO has also assumed responsibility himself for the sales management of the US subsidiary since October 2016. The pipeline has improved again considerably since then. Deals in the pipeline with M3 status increased from 72 MWp as of September 30, 2016 to 100 MWp as of February 28, 2017. In itself, the free order book position of EUR 55.8 million as of December 31, 2016 does not yet represent an extensive basis for further business development and growth. The free order book position amounted to EUR 57.2 million at the end of February.

No forecasts were issued in the previous year for the “free order book position” and “global project pipeline” figures. A variance analysis is not possible for this reason.

Guidance for the 2016 financial year

in € m	Actual 2016	Revised Guidance 2016	Guidance 2016	Actual 2015
Revenues	139.2	135 – 150	180 – 210	119.4
EBIT	0.6	0,5 – 2	2 –> 4	– 1.6
Equity	– 12.1		Slight Improvement	– 7.6
Credit line utilization	68 %		65 %	60 %
New order intake	46.3		160 – 190	267

7 FINANCIAL POSITION AND PERFORMANCE

7.1 RESULTS OF OPERATIONS

7.1.1 TRENDS IN OVERVIEW

In the 2016 financial year, the Phoenix Solar AG consolidated Group constructed solar power plants with nominal output of 153.7 MWp. This was 55.7 percent more than in 2015, when 98.7 MWp were delivered. On this base, we generated consolidated revenues of EUR 139.2 million, representing growth of 16.6 percent (2015: EUR 119.4 million). The difference between growth in shipments and growth in revenues is essentially connected with the fact that in a large-scale project in the USA the customer provided the modules – in other words, we install modules that do not generate revenue.

The marked reduction in module prices during the course of 2016 does not detract from our business development and growth, however, but instead means these plants are less expensive overall for our customers. The gross margin trend shows that we are operating with growing success our business model of engineering, planning and constructing highly efficient solar photovoltaic power plants.

In fact, we improved our gross profit margin (revenue less cost of materials in relation to sales revenue) from 8.4 percent in 2015 to now 12.6 percent. At EUR 0.6 million of EBIT for the full year, we again generated a positive result before interest and tax for the first time since 2010 (2015: EUR - 1.6 million). This corresponds to an EBIT margin of 0.4 percent (2015: - 1.3 percent). The consolidated net result amounted to EUR - 4.7 million (2015: EUR - 5.6 million).The consolidated net result for the period attributable to the majority shareholders stood at EUR - 4.6 million (2015: EUR - 5.2 million). This corresponds to earnings per share of EUR - 0.62 (2015: EUR - 0.71).

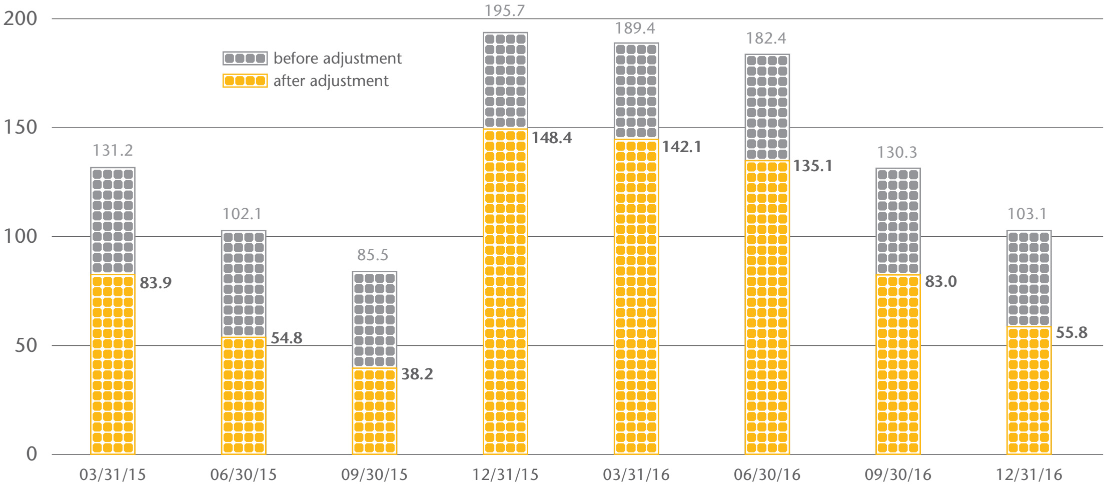
Almost the entire sales revenues are attributable to foreign markets, which were mainly served by our subsidiaries in the regions. Only the holding company is still situated in Germany, which is responsible for Group support processes such as financing, personnel, information technology and legal. Only occasionally do we process projects from the Middle East region through the parent company.

7.1.2 GROUP ORDER BOOK POSITION

Under the free order book position we show the proportion of contractually secured projects that are not yet recognized as sales revenue. As reported, this figure for an extended period included a project for which no construction permit was issued. As it is currently unforeseeable whether and when this permit will be issued, we have adjusted this item in the scope of EUR 47.3 million. A reconciliation also for previous period is presented in the section "Group order book position".

The Group recorded a free order book position of EUR 148.4 million as of December 31, 2015, after taking this adjustment into account. We acquired new orders worth a total of EUR 46.3 million over the course of the year. The free order book position amounted to EUR 55.8 million as of December 31, 2016 – EUR 92.6 million, or 62.4 percent, lower than as of December 31, 2015.

Free order book position at the end of the quarters March 31, 2015 to December 31, 2016 in € m



This graph does not form part of the auditor's report. It serves solely as additional graphical information.

The Group's total order book position (including already invoiced sales revenues) amounted to EUR 186.4 million as of December 31, 2016, a reduction of EUR 65.5 million, or 26 percent (December 31, 2015: EUR 251.9 million).

The project and sales pipeline (M3 – M5) comprised projects in a total scope of 330 MWp as of December 31, 2016. Of these, a total of 245 MWp were under construction (M5). The proportion of contractually secured orders stood at around 1 MWp (M4). A total of 84 MWp relate to potential transactions where we have been shortlisted. We record these under milestone M3, where we weight the volumes for which we are bidding with probabilities between 30 percent and 70 percent. As of December 31, 2015, the value of M3 projects amounted to 34 MWp, M4 included orders for 178 MWp, and 108 MWp were under construction.

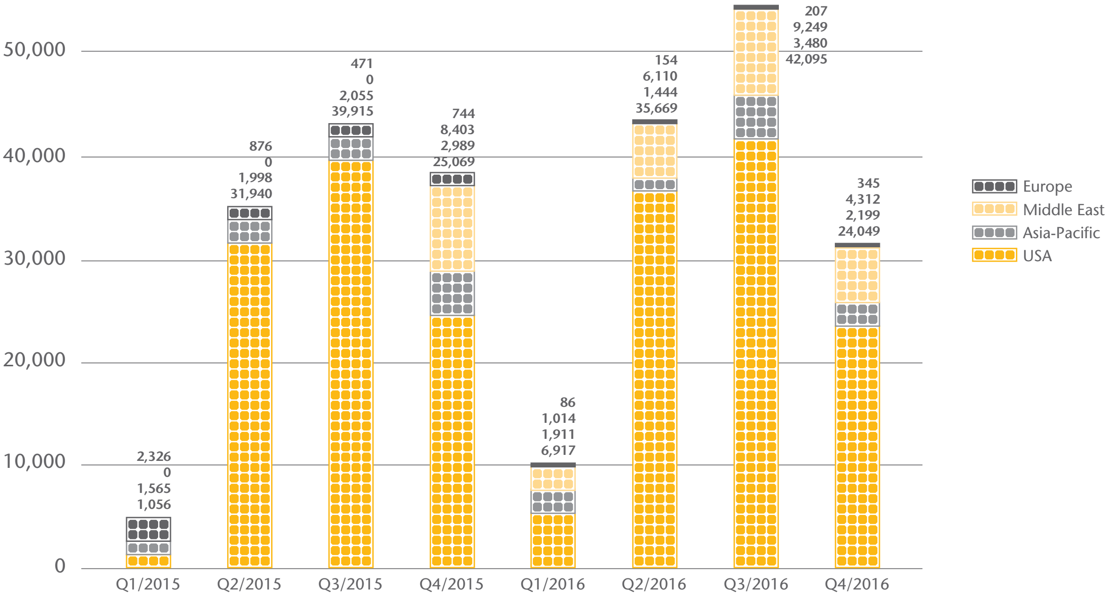
7.1.3 SEGMENT TRENDS

With the 2015/2016 new year, we discontinued our business as a wholesaler of components and systems. With the introduction of direct supply chains from manufacturers to end-customers, intermediary trade has come to a standstill worldwide. Phoenix Solar's trading business in any case continued to be conducted by just a small Group company and only to a minor extent. For this reason, segment reporting as in previous years is no longer meaningful. Whereas in 2015 we still differentiated between the operating segments of "Power Plants" and "Components and Systems", we are now moving to regional segmentation. Applying relevant IAS/IFRS regulations, from this report on we describe business development and trends in the sales regions of the USA, Asia/Pacific, the Middle East and Europe. The detailed segment report, which also includes figures for the holding company segment, is presented in the notes to the consolidated financial statements. The previous year's figures were adjusted accordingly.

The strongest region in terms of sales revenues was the USA with an 78.1 percent share (2015: 82.1 percent), followed by the Middle East at 14.9 percent (2015: 7.0 percent), and Asia/Pacific at 6.5 percent (2015: 7.2 percent). The Europe region continued to contribute just 0.6 percent to consolidated sales revenue (2015: 3.7 percent).

USA: In the USA, we focus in terms of sales on utility-scale ground-mounted plants, especially in the double-digit and triple-digit MWp range. It also continued to be our strongest sales region in the 2016 financial year. Here we achieved sales revenues of EUR 108.7 million, an increase of EUR 10.7 million, or 11.0 percent (2015: EUR 98.0 million). Had we not received a construction permit for one of our large-scale projects on a very delayed basis, in the middle of the fourth quarter of 2016, sales revenue growth would have been significantly higher.

Revenues by region Q1/2015 – Q4/2016 in k€



This graph does not form part of the auditor’s report. It serves solely as additional graphical information.

The business in the USA generated a gross profit margin of 12.7 percent (2015: 7.5 percent). The profit contribution from the USA region (segment result) amounted to EUR 4.6 million (2015: EUR 2.2 million). The project and sales pipeline for the region as of December 31, 2016 comprised 252 MWp, of which 210 MWp under construction and 42 MWp in the M3 offer phase.

Middle East: Our Middle East region achieved our strongest growth. It more than doubled its sales revenues, raising them by EUR 12.3 million, or 146.2 percent, from EUR 8.4 million in 2015 to EUR 20.7 million. In particular, we secured a position in the high-growth market in Turkey and established good relationships to major customers that will go ahead with further joint photovoltaic projects having already worked together with us successfully. Here we are involved mainly in the a ground-mounted area in the single-digit to mid double-digit MWp range. Although Jordan is a small market, it offered us the opportunity in the 2016 financial year to acquire new business and build several smaller projects. We were not active in other markets in the region in 2016.

The business in the Middle East generated a gross profit margin of 10.0 percent (2015: 6.7 percent). The profit contribution from the Middle East region (segment result) amounted to EUR 0.6 million (2015: EUR 0.0 million). The project and sales pipeline for the region as of December 31, 2016 comprised 47 MWp, of which 30 MWp under construction and 17 MWp in the M3 offer phase.

Asia/Pacific: We achieved only slight sales revenue growth in Asia/Pacific in 2016, partly reflecting the change of management and restructuring of the management company for the region in Singapore. Compared with segment revenue of EUR 8.6 million in 2015, we grew by 5.0 percent to reach EUR 9.0 million. A key success engine was the company in the Philippines, which was founded in 2015 and which already acquired several new projects after its first successfully completed commercial rooftop systems.

The Asia/Pacific business generated a gross profit margin of 22.6 percent (2015: 23.6 percent). The profit contribution from the Asia/Pacific region (segment result) amounted to EUR - 0.2 million (2015: EUR - 1.0 million). The project and sales pipeline for the region as of December 31, 2016 comprised 29 MWp, of which 5 MWp under construction, 1 MWp contracted (M4), and 23 MWp in the M3 offer phase.

Europe: In the Europe region, the overall weak market trend was also reflected in a further reduction in business for our Group companies. Here we achieved sales revenues of EUR 0.8 million (2015: EUR 3.6 million). This decrease is attributable to the discontinuation of our trading business in France, although it would have made only a marginal contribution at best in 2016. We nevertheless maintain our presence in France and Spain and already anticipate a slight rise in revenues for 2017. The company in France is repositioning itself as an EPC provider. The team in Greece is our engineering center for the Middle East region. The business and sales management in Athens is also working towards new business opportunities, however.

The profit contribution from the Europe region (segment result) amounted to EUR 0.4 million (2015: EUR 0.6 million). The positive profit contribution is largely thanks to the net gain on the disposal of the company Bâtisolaire 3 SAS, Champagne Mont d'Or, France. The project and sales pipeline for the region as of December 31, 2016 comprised 2 MWp in the M3 offer phase

7.1.4 TRENDS IN KEY INCOME STATEMENT ITEMS

Other operating income

Other operating income of EUR 4.5 million was achieved in the 2016 financial year (2015: EUR 5.3 million). This income primarily comprises EUR 1.6 million of electricity income from the company's own photovoltaic systems (2015: EUR 2.2 million). As we sold our company Bâtisolaire 3 SAS, Champagne Mont d'Or, France, in the middle of the year, the income from the related power plant continues to be included on only a proportional basis. Other operating income also includes gains on the disposal of business units of EUR 0.9 million, gains on the disposal of property, plant and equipment of EUR 0.5 million, as well as EUR 0.4 million of income from the reversal of valuation allowances.

Cost of materials/gross profit

Due to more intensive operating activities, the cost of materials increased to EUR 121.7 million (2015: EUR 109.4 million). Gross profit (sales revenues less cost of materials) improved to EUR 17.6 million (2015: EUR 10.0 million). The gross profit margin (gross profit as a percentage of sales revenues) thereby reaches 12.6 percent in the 2016 financial year, an improvement of 50.9 percent (2015: 8.4 percent). This increase is attributable not least to the successful implementation of our initiatives to standardize and streamline internal processes, especially in the supply chain and in estimating and bidding.

Personnel expenses

As of December 31, 2016, the Phoenix Solar Group employed a workforce of 121 staff (excluding Executive Board members and including temporary staff and trainees; previous year: 78). We have strengthened our teams in the light of current growth, and especially further planned growth. An annual average of around 108 full-time equivalents were employed (excluding Executive Board members, temporary staff and trainees; 2015: 84). The key performance indicator of revenue per FTE reduced slightly from EUR 1.4 million in the previous year to a level of EUR 1.3 million.

Personnel expenses amounted to at EUR 11.3 million in 2016 (2015: EUR 7.6 million), reflecting a rise of 48.8 percent. The personnel expense ratio (personnel expenses in relation to sales revenues) increased from 6.4 percent (2015) to 8.2 percent (2016). The company incurred EUR 0.1 million of expenses for severance payments in the 2016 financial year (previous year: EUR 0.3 million).

Depreciation, amortization and impairment

Depreciation, amortization and impairment fell by EUR 0.4 million year-on-year to EUR 1.0 million (2015: EUR 1.4 million). This decrease is mainly due to the disposal of the company Bâtisolaire 3 SAS, Champagne Mont d’Or, France, which comprised a solar park.

Other operating expenses

Other operating expenses in the 2016 financial year rose by EUR 1.2 million to EUR 9.1 million (2015: EUR 7.9 million), representing 15.4 percent growth, mainly due to growth in business activities. Selling and operating expenses were up by around EUR 0.8 million, or 27.6 percent, to EUR 3.7 million (2015: EUR 2.9 million). Of this, EUR 0.9 million were attributable to legal and consulted costs connected with the operating business (2015: EUR 0.8 million), EUR 0.4 million were for travel expenses (2015: EUR 0.2 million), as well as EUR 0.3 million for rent and leasing (2015: EUR 0.3 million). Administrative expenses of EUR 4.5 million were EUR 0.4 million, or 9.8 percent higher than in the previous year (2015: EUR 4.1 million), due to the expanded operating activities. Although legal and consulting costs in the administrative area were down 2.9 percent (rounded in both 2015 and in 2016: EUR 1.5 million), they were offset by, among other items, higher travel expenses (EUR 0.7 million; 2015: EUR 0.5 million) and an increase in expenses for insurance, contributions and levies in an amount of EUR 0.5 million (2015: EUR 0.3 million).

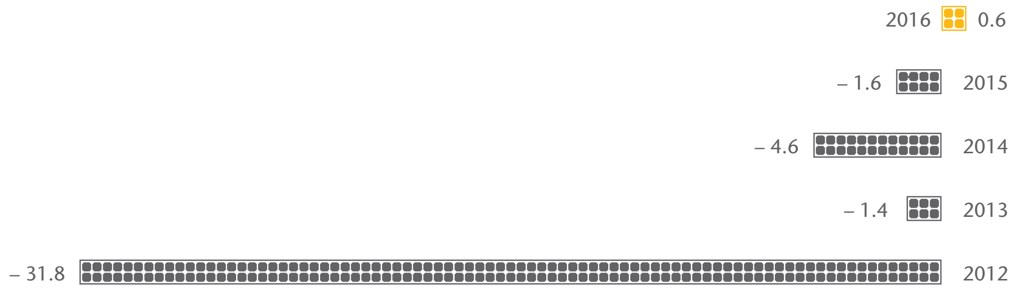
Income from associated companies

Phönix SonnenFonds GmbH & Co. KG B1, in which Phoenix Solar AG holds a 31.2 percent interest, has been equity accounted as an associated company since the 2009 financial year. The share of this company’s profit which is attributable to the Phoenix Solar Group amounted to kEUR 42 in 2016 financial year (2015: kEUR 24).

Earnings before interest and taxes (EBIT)

The Group generated earnings before interest and taxes (EBIT) of EUR 0.6 million in the 2016 financial year. For the first time since 2010, we have reported a positive result at the EBIT line again. This again is a significant improvement of EUR 2.2 million compared with the previous year's equivalent figure (2015: EUR -1.6 million). The EBIT margin improved from -1.3 percent in 2015 to currently 0.4 percent.

EBIT 2012 – 2016 in € m



Financial result

The net financial result of EUR - 4.3 million in 2016 was better than in the previous year (2015: EUR - 4.4 million). Financial income of kEUR 293 (2015: kEUR 98) was offset by financial expenses of EUR 4.6 million (2015: EUR 4.5 million). Of the financial expenses, EUR 2.1 million derive from interest and similar expenses (2015: EUR 2.1 million), EUR 1.1 million reflect financing costs (2015: EUR 1.2 million), and EUR 0.3 million are attributable to measuring financial liabilities with the effective interest method. Expenses for bill guarantee fees stood at EUR 1.1 million (2015: EUR 1.1 million).

Tax rate

The Group incurred a tax expense of EUR 1.1 million in the 2016 financial year, compared with generating tax income of EUR 0.3 million in the previous year. The tax expense is mainly incurred at the Group companies generating earnings, especially in the USA (EUR 0.7 million), as well as at the tax operating entity of Phoenix Solar AG in Turkey (kEUR 149) and in Italy from the power plant operation (kEUR 168).

Consolidated net profit/loss

As a consequence, the consolidated net result attributable to parent company shareholders amounted to EUR - 4.6 million in 2016 (2015: EUR - 5.2 million). A consolidated net result of kEUR - 118 was attributable to minority interests (2015: kEUR - 406). Calculated on an average number of 7,372,700 shares, the basic result per share stood at EUR - 0.62 (2015: EUR - 0.71). Since no material dilutive effects existed as of December 31, 2016, diluted earnings per share do not differ from basic earnings per share.

7.2 FINANCIAL POSITION

7.2.1 PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT

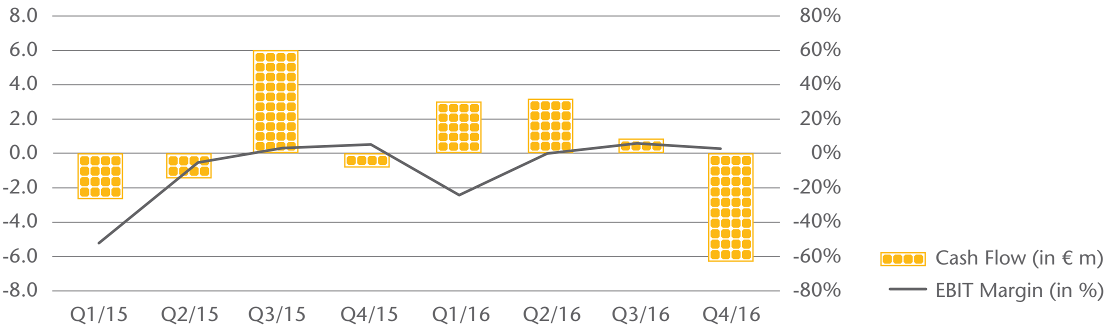
As in previous years, financial policy continued to enjoy central significance in 2016. Along with continued close management of liquidity, the focus was on detailed cost management. In parallel, the company also continued the process of collecting long outstanding receivables.

7.2.2 DEBT FINANCING

On March 18, 2016, the company announced it had signed an agreement with its syndicate of financing banks extending its credit lines and a slightly modified form until September 30, 2018. With a two and half year extension, this is the farthest reaching prolongation of our credit lines since 2012. As a consequence, and as in the previous year, the corresponding financial liabilities continue to be presented as non-current financial liabilities.

Compared with the previous year, non-current financial liabilities decreased by EUR 3.3 million to EUR 35.3 million (December 31, 2015: EUR 39.1 million). This reduction is mainly attributable to special redemptions facilitated by the proceeds from the disposal of the company Bâtisolaire 3 SAS, Champagne Mont d'Or, France. This was offset by a temporary increase in credit line utilization following the postponement of construction start for the aforementioned large-scale project in the USA. Of the committed cash credit lines, a total of EUR 6.7 million were free as of December 31, 2016 (December 31, 2015: EUR 3.2 million).

Operating Cash Flow and EBIT Margin Q1/2015 – Q4/2016



This graph does not form part of the auditor's report. It serves solely as additional graphical information.

7.2.3 CASH FLOW FROM OPERATING ACTIVITIES

The cash inflow from operating activities amounted to EUR 0.1 million in 2016 (2015: EUR 1.8 million). The EUR 4.6 million reduction in prepayments was offset by an increase in receivables (EUR 3.5 million cash outflow). The lower losses also lead to positive effects on operating cash flow. By contrast, interest paid diminished to EUR 0.2 million (2015: EUR 0.3 million), while interest paid stood at EUR 4.2 million (2015 cash outflow: EUR 3.8 million).

7.2.4 CASH FLOW FROM INVESTING ACTIVITIES

Due to the nature of its operating activities, the Phoenix Solar Group's business model does not generally require significant investing activities. By contrast, the disposal of the company Bâtisolaire 3 SAS; Champagne Mont d'Or, France, generated a cash inflow of EUR 7.8 million, leading to a total cash inflow of EUR 8.7 million from investing activities in 2016 (2015: cash outflow EUR 0.2 million). No investment obligations existed as of December 31, 2016, as was also the case as of December 31, 2015.

7.2.5 CASH FLOW FROM FINANCING ACTIVITIES

Whereas the Group reported a net breakeven cash flow from financing activities in 2015, extensive repayment of bank loans in 2016 in a scope of EUR 3.8 million was evident as cash outflow. Together with commissions paid (EUR 0.5 million; 2015: EUR 0.4 million), and interest received of EUR 0.0 million (2015: EUR 0.1 million), financing activities generated a cash outflow of EUR 4.3 million.

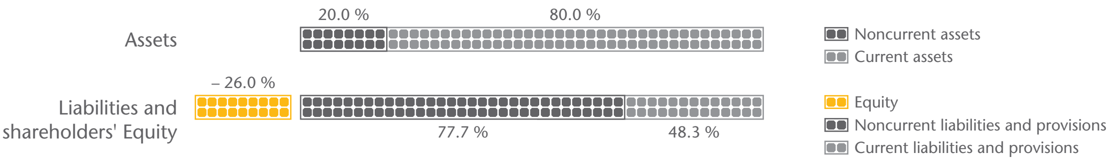
7.2.6 CHANGE IN CASH AND CASH EQUIVALENTS

The cash and cash equivalents of the Phoenix Solar Group increased overall by around EUR 4.5 million to EUR 9.4 million in the 2016 financial year (December 31, 2015: EUR 4.9 million). Net debt (non-current financial liabilities less cash and cash equivalents) amounted to EUR 25.9 million as of December 31, 2016 (December 31, 2015: EUR 34.2 million). No liquidity shortfalls occurred in the 2016 financial year. The 2016 liquidity trends and liquidity position as of December 31, 2016 lead to the expectation that the Group will remain in a position to fulfill all its payment obligations. Furthermore, the existing Group financing fully secures the payments planned in the currently valid budget. Provided that business continues to develop in line with expectations in 2017, no liquidity shortfalls are foreseeable.

7.3 NET ASSETS

in € m	12/31/2016	12/31/015
Assets	**46.5**	**53.4**
Non-current assets	9.3	17.3
– of which deferred tax assets	1.5	1.9
Current assets	37.2	36.2
– of which inventories	1.4	2.0
– of which receivables under long-term construction contracts	12.4	6.5
– of which trade receivables	7.3	9.9
– of which cash and cash equivalents	9.4	4.9
Equity and liabilities	**46.5**	**53.4**
Equity	– 12.1	– 7.6
Non-current liabilities and provisions	36.1	39.7
– of which deferred tax liabilities	0.1	0.0
Current liabilities and provisions	22.5	21.3
– of which trade payables	17.8	9.5

Balance structure as of 12/31/2016



The total assets of the Phoenix Solar Group stood at EUR 46.5 million on December 31, 2016 (December 31, 2015: EUR 53.4 million), corresponding to a decrease of 12.9 percent.

On the assets side of the balance sheet, the reduction in total assets is attributable to the decrease in property, plant and equipment of EUR 7.6 million to EUR 6.2 million as of December 31, 2016 (December 31, 2015: EUR 13.7 million). In turn, this chiefly reflects the disposal of the company Bâtisolaire 3 SAS, Champagne Mont d'Or, France. Receivables from construction contracts as well as trade receivables and prepayments of EUR 20.0 million were EUR 1.3 million lower (December 31, 2015: EUR 21.3 million). This was primarily due to the EUR 4.6 million lower level of prepayments. Cash and cash equivalents stood at EUR 9.4 million as of December 31, 2016 (December 31, 2015: EUR 4.9 million).

Other financial assets reduced by EUR 0.1 million to EUR 4.1 million (December 31, 2015: EUR 4.2 million). Other financial assets reduced by EUR 1.8 million to EUR 1.2 million (December 31, 2015: EUR 3.0 million). For more information, please refer to the consolidated statement of changes in non-current assets (section 14) in chapter D of the notes to the consolidated financial statements.

As a result of the consolidated net loss, the Group's equity position diminished by EUR 4.5 million to EUR - 12.1 million (December 31, 2015: EUR - 7.6 million). Accordingly – including due to the lower level of total assets – the equity ratio stood at - 26.0 percent as of December 31, 2016 (December 31, 2015: - 14.1 percent).

As the Group does not constitute a legally independent company in itself, no direct going concern risks arise for the company as a result of its negative equity. Solely the equity of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code (HGB)), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 5.7 million as of December 31, 2016, equivalent to a 8.6 percent equity ratio (December 31, 2015: EUR 6.6 million, corresponding to a 12.3 percent equity ratio).

Liabilities decreased by EUR 2.4 million to EUR 58.6 million as a consequence of the repayment of non-current financial liabilities (December 31, 2015: EUR 61.0 million). Non-current liabilities (trade payables and liabilities from non-current construction contracts) totaled EUR 18.1 million, and were thereby at the previous year's level (December 31, 2015: EUR 18.1 million). Due to effects relating to the reporting date, EUR 17.8 million as of December 31, 2016 were attributable to trade payables (December 31, 2015: EUR 9.5 million). Current provisions (EUR 0.6 million) and non-current provisions (EUR 0.8 million) as of December 31, 2016 reflected only a slight change at a low level. Net debt (non-current financial liabilities less cash and cash equivalents) amounted to EUR 25.9 million as of December 31, 2016 (December 31, 2015: EUR 34.2 million), a reduction of EUR 8.3 million or 24.3 percent.

8 GUIDANCE, REPORT ON OPPORTUNITIES AND RISKS

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

In the regions we address, some areas of the market for photovoltaic plants will reduce slightly following a strong 2016, but then gather momentum again for the foreseeable future. Newbuild plant capacities in the Middle East will increase from 1 GWp in 2016 to 3.0 GWp in 2021. In Asia/Pacific, this figure will double over the same period from 2.0 to 4.0 GWp. Following record new build in 2016 of 14 GWp and more in the USA, we initially see a reduction in the overall photovoltaic market to 11.7 GWp and 11.0 GWp in 2017 and 2018, before then returning to growth to reach 13.3 GWp by 2021.

For 2017, we anticipate a decrease overall in newly installed photovoltaic capacity to 11.1 GWp in the target markets that we reach and are relevant to us (2016 add-on build: 12.6 GWp). If we observe solely the market segments included in our business model, around 7.3 GWp is to be newly built in the USA, 1.6 GWp in our target markets in Asia/Pacific, 1.1 GWp in the Middle East, and around 1.1 GWp in our European markets (France, Greece, Spain) together. Even given the reduction in newly installed photovoltaic capacity, these markets consequently continue to offer us very attractive growth opportunities.

8.1 STRATEGY

Our strategy for 2017 focuses on continuing and intensifying our organic growth. After our continued clear focus on the USA as our decisive core market, in the 2016 financial year we also further developed our two growth regions of Asia/Pacific and the Middle East to a greater extent. We are maintaining our presence on European markets, by contrast, and will seize business opportunities on offer there.

We continue to identify robust demand for high-quality EPC services on our market – our references for constructing high-performing photovoltaic power plants at competitive prices on-time and on-budget make us a suitable partner for investors and operators. Being limited to our existing business model and existing target markets cannot lead to satisfying growth for the Group in the medium and long term, however.

This is all the more true insofar as price and margin pressure will also increase in our business due to greater competition, advancing market maturity and a further reduction in component prices.

For this reason, the Executive Board and the whole Group are focusing on the following tasks as part of implementing and continuing the existing strategy plan:

- Central focus on acquiring profitable projects and consistent expansion of the global project pipeline
- Further strengthening of our market position in the three regions of the USA, the Middle East, Asia/Pacific, and re-establishing stronger activities in Europe
- Ongoing improvements to the process organization in order to operate as efficiently as possible internally, and promote the exchange of respective best practices between our operating units, with the aim of continually optimizing our competitiveness
- Organizational development and strengthening of the global team
- Developing new strategic options to expand our position along the value chain, especially into the project development area
- Entering new regional markets where appropriate opportunities arise

Central management tasks include taking specific markets' different conditions into account within a differentiated and country-specific sales approach. Underpinning our growth on our strongest regional market, the USA, through further successful reference projects will constitute a key factor for the entire Group's business success in this regard.

In Asia/Pacific, we have successfully extended our presence in the Philippines with the founding of a subsidiary in 2015. The management in the region has the task of consistently exploiting market opportunities on offer in existing markets, as well as in new countries such as Australia, and of further increasing their share of the Group's success and profitability.

We significantly expanded our position in the Middle East region in the 2016 financial year. We are intensifying our direct contacts to customers and potential customers, especially in the two most important local markets in Turkey and Jordan, to continue our growth with new projects.

The market in Europe will prospectively continue to underperform the world market in 2017. Including with a reduced personnel base, our subsidiaries will nevertheless exploit all opportunities to generate new business. In France, greater political backing appears to be emerging for photovoltaic, and in Spain, resistance is growing to the obstacles erected by the government over the past years. We are consequently endeavoring to increase this region's share of Group business again.

Our planned strong organic corporate growth also presupposes that the capacities required for this are available.

The Executive Board is continuing to work on options to further secure and expand Phoenix Solar's market position. The focus here is both on occupying further steps of the value chain, and on entering new markets, preferably in proximity to already existing activities. We carefully review opportunities to expand our business in this direction, partly with the help of external advisers. We only pursue such options further if commercial judgment suggests the available opportunities outweigh the identified risks.

8.2 GUIDANCE IN THE BASELINE SCENARIO

Quite apart from our strategic further development, our guidance for the 2017 financial year envisages a continuation of organic growth in the baseline scenario. Based on our business model, our further improved positioning, especially in the core market in the USA, and thanks to our consistent orientation to highly professional sales processes, we are able to benefit and profit from growing demand for high-performance photovoltaic systems, and report further growth in terms of both revenue and results. Our 2016 financial year provided evidence of this.

We expect the strongest volume in the USA, where we aim to increase our sales of newly installed MWp in the triple-digit range in the 2016 financial year. We also plan double-digit figures in terms of MWp sold in our growth regions of Asia/Pacific and the Middle East, however. Overall, we expect that the USA's relative share of Group revenue will continue to reduce slightly in favor of the other regions.

Along with the absolute size of the reachable target markets, the basic assumption in the forecast is also the continuation of the global growth trend. As explained in section 4, our subsidiaries in these countries have strategic partners and experienced teams that all command very good networks, proven track records, good references and a sound reputation. By way of reference, they have successfully installed a total of more than 800 MWp of high-performance photovoltaic systems. This qualifies them to actively acquire projects and seize opportunities to pitch for both smaller and larger projects and translate them into business. We consequently anticipate that these units are well positioned to expand with the market and even achieve above-average growth. The order book position at the start of the year already covers notable portions of the planned revenue.

If these basic assumptions materialize as expected in our target markets, we succeed in realizing our sales opportunities, and the terms and conditions notified by potential customers are met, then in the 2017 financial year similar sales revenue growth to 2016 can be realized within the Group. This would correspond to a range between EUR 160 million and EUR 190 million (2016: EUR 139.2 million). This will prospectively necessitate shipments of between 180 MWp and 220 MWp (2015: 153.7 MWp).

To achieve these growth targets and be able to start the coming 2018 financial year with a free order book position as good as the one with which we have entered the current financial year, we require new order intake of between EUR 170 million and EUR 200 million. Existing projects and projects that are being prepared are weighted by probabilities in the global pipeline. To the extent that the aforementioned business prospects are uncertain to differing degrees, and the price reduction per MWp requires more shipments to achieve the same revenue, we need stronger pipeline growth and are aiming for around 400 MWp for the 2017 year-end. These key sales figures are rolling quantities and are necessarily subject to certain fluctuations as a consequence.

On the cost side, by contrast, we plan slightly rising levels in the context of further business growth. Hiring in 2016 is reflected in an increase in personnel expenses. We assume we can reach and process the forecast sales revenues with only a slight rise in the workforce. Also thanks to prospectively lower consulting and travel expenses, we expect to reduce our other operating expenses. Given this, we expect we can generate earnings before interest and taxes (EBIT) of between EUR 1 million and EUR 3 million (2016: EUR 0.6 million).

The financing agreement that was concluded in 2012, and which was most recently extended until September 30, 2018 in a modified scope with an agreement dated March 18, 2016, covers the company's financing needs in full, based on our organic growth planning. The Group's financing is secured until September 30, 2018, as long as no significant deterioration occurs to the company's business trends and asset position, and no other events occur that might result in the termination of the agreements.

Despite this – and given stable financing until 2018, as well as planned credit line utilization for 2017 averaging around 75 percent, entailing corresponding financing expense, as well as given a rising tax expense at the profitable subsidiaries – we cannot yet anticipate the company being able to generate a significantly positive result. For this reason, the consolidated equity level and the Group equity ratio will remain negative over the course of the 2016 financial year. Depending on the operating profit contributions that will actually be achieved, we anticipate a constant or slightly declining trend in consolidated equity. We anticipate that equity will then tend to rise towards positive levels.

Guidance for the 2017 financial year

in € m	Actual 2016	Forecast 2017
Revenues	139.2	160 – 190
EBIT	0.6	1 – 3
Equity	– 12.1	decreasing slightly
Credit line utilization	68 %	75 %
New order intake	46.3	170 – 200
Free order book position[1]	55.8	rolling at the same high level
Global pipeline[1]	330 MWp	400 MWp

[1] At the end of the period

The possibility of exploiting opportunities extending above and beyond this baseline scenario depends on any additionally required financing resources, among other factors. This option, and the necessity of gradually also strengthening the equity backing of the company and Group again, form the topic of further Executive Board deliberations.

RISKS AND OPPORTUNITIES

Our plans could be hampered or, conversely, favored by various external and internal factors, however. The risks and opportunities arising for the Group are monitored by the Executive Board on an ongoing basis, particularly by way of the opportunity and risk management system established for this purpose. The opportunities and risks are not differentiated by segment in this system.

8.3 RISK POLICY

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

8.4 OPPORTUNITY AND RISK MANAGEMENT SYSTEM

The Group's risk and opportunity management system is designed to identify individual risks, to present them in a transparent manner, and to determine ways of managing them appropriately. Aside from going concern risks, we also monitor the activities, events and developments that could have a significant influence on future business success and profitability. The corresponding goals and procedures, and the division of responsibilities within the risk management system, are documented in the risk management handbook.

A group of risk officers appointed to key functions utilize a standardized risk inventory list in order to report existing, newly identified and potential risks to the risk manager on a regular basis. Each individual risk is classified according to the criteria of event risk and potential loss amount. In addition, the risk officers define countermeasures to exert a positive influence on the aforementioned parameters. The risk manager analyzes, assesses and documents all such risks at regular intervals (generally on a monthly basis), and informs risk officers at regular risk committee meetings. The Chief Financial Officer of Phoenix Solar AG currently acts as the risk manager. At the risk committee meetings, the risk manager reviews both the risk assessment and related countermeasures. If the expected potential loss from aggregated risk reaches a certain a critical threshold, the risk manager also informs the Supervisory Board about the Group's current risk position. In addition to this, the Executive Board adopts the standard practice of reporting on the Group's current risk position to the Supervisory Board telephone conferences and meetings.

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

8.5 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM IN RELATION TO THE GROUP FINANCIAL ACCOUNTING PROCESS

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

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

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

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

8.6 SUMMARY OF THE RISK POSITION

As part of our risk management system, three specific risks are categorized as "significant" as of December 31, 2016: namely, the risk attached to Group financing, the risk from the sales and project business abroad, and the risk emanating from the erosion of half of the parent company's equity.

The expected risk level for Group financing continues to be gauged as moderate due to the term of the Group financing facility until September 30, 2018.

Measures entailing the Group's legal structures in the 2016 financial year enabled hidden reserves at the Group parent company to be recognized. This led to a marked strengthening of the equity of Phoenix Solar AG again. Further measures, such as processing some projects of either parent company, will also support the further growth of its equity. As the parent company, as a holding company without its own sales revenues, continues to rely on third-party funds to strengthen its equity, the risk remains set at "moderate".

In 2016, the risks pertaining to the sales and project business abroad reduce further compared with 2015, by contrast. Very different business trends in our regions nevertheless demand the uninterrupted attention of the Executive Board, justifying continued categorization of the risk as "significant" accompanied by a "moderate" event risk.

The "quality and capacity risk" that reflects greater challenges arising from the strong business growth during the financial year under review and the previous year is gauged as "moderate".

Our business in Turkey has developed very positively since the end of 2015 and the sales pipeline is very promising. The current political situation in the country, with the ongoing state of emergency and widespread uncertainty, can nevertheless slow our business development and growth. For this reason, in the "political and regulatory influencing factors" risk, we have increased the effect on occurrence as well as the expected value from "low" to "moderate".

In the estimation of the Executive Board and to the best of our current knowledge, the risks to which we are thereby exposed are manageable. The Phoenix Solar Group was not jeopardized by any going concern risk as of the date when this report was prepared. This assessment applies to both the individual companies and the Group. As part of our risk management system, three specific risks are categorized as "significant": namely, the risk attached to Group financing, the risk from sales and from project business abroad, and the risk entailed in the erosion of half of the parent company's equity. Further consideration of the three risks has resulted in each of them being classified as moderate.

Overview and assessment of the individual risks

Risk category	Classification	Impact on occurrence	Probability of occurrence	Potential loss amount	Monitored by way of
8.7.1. Group financing	significant	high	low	moderate	Risk management system
8.7.2. Liquidity	low	high	low	low	Daily Monitoring
8.7.3. International sales and project business	significant	moderate	low	moderate	Management reviews
8.7.4. Political and regulatory influencing factors	moderate	moderate	moderate	moderate	Management reviews
8.7.5. Market, competition and external influencing factors	low	moderate	low	low	Management reviews
8.7.6. Purchasing and inventories	low	low	low	low	Risk management system
8.7.7. Currency risks	moderate	moderate	moderate	low	Risk management system
8.7.8 Erosion of half of the parent company's equity	significant	high	moderate	moderate	Monthly Monitoring
8.7.9 Quality and capacity risk	moderate	moderate	low	moderate	Management reviews
8.7.10 Other risks	low	moderate	moderate	low	Risk management system

8.7 SPECIFIC RISKS

8.7.1 GROUP FINANCING

The syndicated loan that was extended in March 2016 until September 30, 2018 with a reduced volume covers – in combination with other bilateral financing arrangements – the financing requirement over its duration that was calculated as part of planning.

The agreement no longer contains any financial covenants since it was extended in November 2014. Extraordinary termination is possible due to a significant worsening of asset ratios or the business position – as is usual in such agreements, and which was also already included in previous versions. Such a deterioration would put the company's continued existence at jeopardy.

The company's management assumes on the basis of current business trends that the company's solvency is secured during the term of the syndicated loan. This is also especially justified on the basis of the conservative assumptions relating to cash inflows and outflows in the underlying corporate planning.

Securing the Group's financing remains a significant Executive Board task, including after the extension of the syndicated loan and bilateral loans that was agreed with the banking syndicate in March 2016.

Following the expiry of the current financing facility on September 30, 2018, the company's solvency might depend on whether and to what extent the syndicated loan is extended beyond that date, or equity is made available by third parties.

8.7.2 LIQUIDITY

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

8.7.3 INTERNATIONAL SALES AND PROJECT BUSINESS

The Phoenix Solar Group enjoys an international presence through its subsidiaries on three continents. As in the previous year, the new strategic orientation will continue to result in a high degree of dependency by the Group on these markets over the coming years, and on the earnings contributions generated by the subsidiaries there. If projects in the multimegawatt range fall below sales planning as calculated on full-year basis, this could result in a considerable shortfall against consolidated revenue planning, leading to corresponding earnings loss. We counteract this risk through close coordination with the subsidiaries by way of a standardized reporting line with monthly and bi-weekly management reviews and other regular monitoring measures geared to the sales situation of the companies. We professionalized sales processes further in 2016. In addition, the company will continue to work on improving sales processes, and on exploiting the experience made in relation to project lead times and the effects of project delays, in order to thereby minimize risk. This allowed this risk to be reduced, as far as event risk and effects were concerned – it nevertheless remains significant given our focus on international markets, and is monitored constantly by the management. Whether the Phoenix Solar Group succeeds in concluding the significant planned project orders on time, and achieving the planned sales revenue contributions, nevertheless remains a considerable risk for the company.

The primary focus on countries outside the European Union also poses a heightened risk due to the Group's involvement in various legal and political systems as well as currency zones. Misjudgments of legal and economic conditions, and resultant unpredictable cost burdens, are possible, as a matter of principle. We counter such risk through a defined approvals process for projects exceeding a certain dimension. Executing photovoltaic power plant construction projects in foreign countries is also sometimes subject to greater risks. In order to identify and counter these risks at an early stage, especially in the case of major projects, standardized risk reports are prepared in the context of monthly reporting. Nonetheless, delays and higher costs compared with original planning that might potentially result in lower gross margins cannot be excluded.

8.7.4 POLITICAL AND REGULATORY INFLUENCING FACTORS

The development of the various national photovoltaic markets will continue to present a disparate picture in 2017 in terms of the extent to which they are fostered or hampered by legislation. The returns that can be achieved by new photovoltaic systems are negatively affected by long-term legislative degression models, as well as unannounced and occasionally radical changes in legislative frameworks, and intervention that impairs confidence and fails to protect installed capacity. The resultant uncertainty on the part of investors and operators can cause markets to stagnate, or even contract.

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

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

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

The political situation in the Middle East region harbors particular risks insofar as an expansion of armed conflict in Syria and Iraq could negatively affect our current main sales areas in Jordan and Turkey, or bring their operations to a standstill. Here, too, further regional diversification plays an important role in mitigating the consequences of such risk arising.

In particular, our business in Turkey has developed very positively since the end of 2015 and the sales pipeline is very promising. The current political situation in the country, with the ongoing state of emergency and widespread uncertainty, can nevertheless slow our business development and growth. For this reason, in the “political and regulatory influencing factors” risk, we have increased the effect on occurrence as well as the expected value from “low” to “moderate”.

8.7.5 MARKET, COMPETITION AND EXTERNAL INFLUENCING FACTORS

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

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

8.7.6 PURCHASING AND INVENTORIES

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

8.7.7 CURRENCY RISKS

Our key financials are partly influenced by exchange rate fluctuations from our global business activities. Our focus on international markets has increased this risk. Especially the US dollar exchange rate plays a particular role, in so far as 83 percent of consolidated revenue was generated in this currency in the 2016 financial year. We limit currency risks by optimizing operational cash inflows and outflows. Further currency risks are generally hedged by means of hedging instruments, such as forward currency transactions and currency options. As of the December 31, 2016 reporting date, the Phoenix Solar Group reports forward currency transactions with a volume of EUR 4.3 million (December 31, 2015: EUR 4.4 million).

8.7.8 EROSION OF HALF OF THE PARENT COMPANY'S EQUITY

As a separate company, Phoenix Solar AG is tending not to generate any revenues, or only low revenues, due to the strategic reorientation in Germany, while at the same time bearing costs connected with its function as the Group holding company. The loss that is to be expected as a consequence is reducing its equity constantly. When a level of half of the share capital is reached, Section 92 of the German Stock Corporation Act (AktG) requires that an Extraordinary General Meeting be convened to inform shareholders. Further erosion of the equity brings with it the risk that Phoenix Solar AG becomes overindebted in terms of German stock corporation law. Measures entailing the Group's legal structures in the 2016 financial year enabled hidden reserves at the Group parent company to be recognized. This strengthened the equity of Phoenix Solar AG by EUR 7.2 million. Further measures, such as the processing of some projects by the parent company, will also support the further growth of its equity. Reducing this risk continues to have the highest priority, however.

8.7.9 QUALITY AND CAPACITY RISK

The growth in our business activities that we have realized in 2016, and aim to continue in 2017, presents us with additional challenges. A large scope of newly won project orders has to be processed by our teams on schedule and on budget, to the quality committed to the customer, in order to avoid consequences for our reputation and profitability. Shortcomings in product and delivery quality can not only result in contractual penalties, but also exert a strongly negative impact on our business in the respective region subsequently. To counter this risk, the management must ensure that requisite capacities of qualified staff are available at all times.

8.7.10 OTHER RISKS

According to the current status of knowledge, none of the other risks that are monitored constantly as part of the risk management system (receivables default risk, warranty risk, and tax and legal risks, for example) are such that their materialization would entail a significant negative impact on Group revenue and earnings. A legacy project constructed in 2012 can generate a tax risk in the low seven-digit amount in millions of euros. None of the warranty risks deriving from legacy projects currently represents a significant risk. Should the situation change, however, cases might arise that could potentially necessitate provisions.

8.8 OPPORTUNITIES

Guidance for the 2017 financial year is based on the existing business model and the existing Group structure. Our strategy tends to comprise an expansion of the business model and the tapping of new local markets. If progress is already achieved in implementing this strategy during the current financial year, the forecast might also be exceeded.

This concerns, firstly, the expansion of our value chain to include further services upstream and downstream from our core EPC business model. Secondly, we are currently conducting a targeted examination of market entries in some countries. Criteria in this context include the growth phase in which the respective photovoltaic market finds itself, whether political and economic conditions are secure, and whether local partners and our own capacities enable us to generate business.

The extent to which our efforts will already prove successful during the current year is not yet foreseeable. In our core business, too, opportunities might also arise above and beyond the forecast, however.

Our team in the USA has qualified staff and professional processes. It is engaging with the task of further expanding our base of potential customers and project developers with growing success, and has itself also already partly taken its first steps towards greater involvement in project development. This operational strengthening and successful processing of all orders has bolstered our reputation and market position. Given the continued strong growth of the US market, recommendations by satisfied customers could result in additional orders above and beyond our planning.

In Asia/Pacific, too, along with further expanding business in the Philippines and a resumption of sales activities in our traditional core markets, the newly formed teams might find additional opportunities to boost recognition and also conduct more expansive sales operations in the region's new markets thanks to the many reference projects that have already been realized and the expertise base our employees command.

Our main objective is to meet our revenue and results forecast reliably. We will, however, not fail to exploit promising opportunities as they arise, thereby potentially reporting growth in our business success and profitability already in 2017 above and beyond our guidance.

8.9 FUTURE DIVIDEND POLICY

As a matter of principle, the goal of the dividend policy of Phoenix Solar AG is to maintain the investment value of the company's share, while also being able to finance the company's future growth and meet the needs of the current business situation. The company has met this goal in the past. No distributions are possible for the foreseeable future, however, due to the company having realized considerable losses in the 2011 to 2016 period.

9 GENERAL STATEMENT ON THE GROUP'S POSITION AND PROSPECTS

In 2016, we continued to prove that we are able to successfully implement our business model entailing the engineering, procurement and construction of large turnkey photovoltaic plants, and that solid demand for our services exists in growth regions worldwide.

We are positioning ourselves successfully in our target markets with our service offering comprising the turnkey construction of high-performance utility-scale and commercial & industrial rooftop (C&I) photovoltaic systems on-time and on-budget. Renowned customers expressly confirmed in 2016 that we justify our claim of delivering "Excellence in Global PV Solutions".

On the other hand, we again experienced how the particularities of the project business also entail a certain level of volatility. It cannot be excluded entirely that projects that are well developed fail to enter the planning and construction phase, that contractually agreed projects are postponed, or that some building approvals experience long delays. The safest way to address these inherent challenges is by raising business volumes to a level where individual delays or omissions do not jeopardize target-attainment overall. To achieve this gradually ranks as one of our targets for the current and coming years.

For this reason, since 2015 we have developed, implemented and refined instruments that allow us to rapidly record and control sales activities and successes across the Group. The Executive Board anticipates, and works with all managers toward ensuring, that business contacts that have been initiated are realized as actual orders, at least to a sufficient extent to reach targets. Smoothing out sales successes and securing the planning bases remain constant tasks for the entire company.

With our focus areas in the USA, Asia/Pacific and the Middle East, as well as with our companies in Europe, we are active in photovoltaic markets and well positioned to report further growth for the foreseeable future. Our company in the USA will continue to dominate Group business during the current year. At the same time, we nevertheless expect that the two other growth regions will further boost their proportion of consolidated revenue and results, and support them accordingly. We also anticipate new growth from the European markets and our activities there, albeit from a low level.

We are currently operating in large, high-growth markets. We can achieve our planning without the need for leading market positions. We nevertheless must not fail to constantly review our own competitiveness and constantly improving it.

We are working on improving our sales management in all regions. To this end, we are constantly improving our operating and controlling processes in order to have processes in deployment Groupwide that are stringent and adapted to the company's improved position. We are already steering each project through a centralized approvals process that also involves the Executive Board in major projects, as well as the Supervisory Board depending on size. Liquidity planning, in particular, plays a decisive role in this context. To the extent that we succeed in always managing projects on a cash-positive basis thanks to construction progress payments, we are significantly reducing the requirements made of growth financing.

Growth of at least one sixth makes greater demands of management. In particular, the requisite personnel and technical capacities are to be provided in order to sustainably secure the high level of supply quality that our customers constantly attest. These challenges are recognized, and are being addressed continuously.

The financial basis for our organic growth has been secured thanks to the term of our syndicated loan until September 30, 2018, which was agreed at the end of the year under review. The task nevertheless remains for the Executive Board to sustainably secure the equity backing for the company and the whole Group, and on the financing side to ensure Phoenix Solar's capacity to act, including in relation to the strategic options that are to be newly tapped.

We are convinced that photovoltaics can hold its own in the competitive arena, and remain a future-oriented technology. Its market penetration stands on the threshold of a new phase, however, when conditions and opportunities are set to change swiftly, requiring a new approach from providers, policymakers, investors and customers. In this situation of radical change, we are positioning Phoenix Solar AG as a company which can rise to meet these challenges with its range of products and services. Continuing our sales and earnings improvement in 2017 will depend on how swiftly we can achieve this positioning, and convert our good foothold in our core markets into business. We continue to see ourselves as well equipped for this.

10 SUSTAINABILITY

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

The following section lists specific measures which were launched over the past years, and continued to be implemented at the German locations during the 2016 financial year.

10.1 ECOLOGY

10.1.1 PRODUCTS, SERVICES AND SUPPLIERS

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

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

Suppliers with which the company maintains long-term cooperation relationships are selected on the basis of criteria that go beyond product quality to also include manufacturing process, working conditions and corporate governance. As part of launching the new purchasing strategy, these criteria were reviewed and partly redefined.

Nearly all the module manufacturers with which Phoenix Solar collaborates either participate in professional take-back programs for photovoltaic modules or have set up their own take-back programs. These programs guarantee the acceptance of used products, even if the manufacturer were no longer to be in operation.

10.1.2 CERTIFIED PROCESSES

Back in 2009, the Power Plants segment of Phoenix Solar AG had already introduced a quality assurance and environmental management system that was certified under the international standards DIN EN ISO 9001:2008 and DIN EN ISO 14001:2004.

Due to stronger operating activities at the subsidiaries Phoenix Solar Overseas GmbH and the French company Phoenix Solar S.A.S., a quality and environmental management system was implemented again at the end of the 2015 financial year, with successful certification in a multi-site process during the first quarter of 2016. Phoenix Solar AG is oriented here to revised ISO standards 9001:2015 and 14001:2015. The corporate management principles have been extended to include the stakeholder approach. This assumes that long-term success and profitability can be secured only through taking into account a company’s various defined interest groups.

As all locations operate under the same joint management system that Phoenix Solar AG, as the Group’s central operation, formulates, introduces and monitors regularly, requirements of processes for the quality and environmental management system are at the same level.

10.1.3 ENVIRONMENTAL MANAGEMENT SYSTEM

Phoenix Solar AG has introduced an environmental management system that is based on the applicable standards for quality assurance (DIN EN ISO 9000 et seq.) and the international standard for environmental management (DIN EN ISO 14000 et seq.). The company’s environmental management system governs the organizational procedures, the detection of deficiencies, the initiation of corrective measures, and the provision of necessary resources to improve and preserve the company’s environmental situation. The effectiveness of this system was continuously monitored, adjusted and improved by means of periodic reviews up to the end of the 2013 financial year. The renewed engagement of the environmental management system with the requirements of DIN EN ISO 14001:2015 includes an expansion of the environmental assessment, including aspects from the entire life-cycle of photovoltaics systems and their main components.

An environmental management officer was appointed who worked in close coordination with the management to ensure that the company complies with and implements all regulations pursuant to DIN EN ISO 14001 as well as all regulatory requirements. The tasks of the environmental management officer lie directly at the most senior management level that is responsible for applying and complying with environmental policy and environmental targets, and can delegate this responsibility where required.

Compliance with the company's environmental policy is verified through internal audits at least once every year.

10.1.4 VEHICLE FLEET

Following the disposal of the European O&M business at the Ulm site and the downsizing of the Group headquarters, the Group no longer operates its own vehicle fleet.

10.1.5 OTHER

At our Sulzemoos site we continue to purchase the electricity that we consume from a certified environmental electricity provider that supplies only electricity produced from regenerative energy sources, meets the EcoTopTen criteria, and was categorized as "very good" by the magazine "ÖkoTest" in 2015. We also minimize paper consumption, and purchase the paper we use for our print products only from paper manufacturers that carry the seal of the Forest Stewardship Council (FSC). Cleaning agents have been replaced consistently by environmental products.

10.2 COMMITMENT TO SOCIAL RESPONSIBILITY

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

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

As of December 31, 2016, the share capital of Phoenix Solar AG amounted to EUR 7,372,700.00, unchanged from the prior year. It is divided into 7,372,700 no par value bearer shares. All shares are issued and fully paid in. Pursuant to Section 5 (5) of the articles of incorporation, shareholders are not entitled to separate share certificates. All shares are ordinary shares. Each share grants the same co-administration and asset rights and confers one vote per share in the Annual General Meeting. Further rights and obligations of the shareholders are established in the German Stock Corporation Act (AktG), particularly Sections 53a et seq. and 118 et seq.

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

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

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

Amendments to the articles of incorporation are fundamentally subject to the legal provisions under Sections 133 and 179 of the German Stock Corporation Act (AktG). Unless regulated otherwise on a specific case basis by the articles of incorporation, and provided they do not contradict mandatory statutory requirements, AGM resolutions are passed pursuant to Section 14 (5) Clause 2 of the articles of incorporation by way of a simple majority of the votes issued or, if a capital majority is required, the share capital represented at the time of the resolution. Pursuant to Section 12 (3) of the articles of incorporation, the Supervisory Board is authorized to approve amendments relating solely to their wording. Moreover, by virtue of the resolutions of the AGMs of July 7, 2006, June 16, 2010, July 14, 2011, and June 23, 2015, the Supervisory Board is also authorized to amend Section 5 of the articles of incorporation to reflect the respective utilization of Conditional Capital 2006, Conditional Capital 2015 and Approved Capital 2015. The Supervisory Board is similarly authorized after the expiration of the respective authorization periods, and, in the event that the Conditional Capital 2010 is not utilized, after expiration of all conversion and/ or warrant periods.

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

By way of resolution by the AGM of June 23, 2015, the Executive Board was authorized, with the consent of the Supervisory Board, to purchase treasury shares representing no more than ten percent of the company's share capital, either on the stock market or by means of a public purchase offer to all shareholders, and to resell them on or before June 22, 2020. Further details are set down in the proposed resolution published in the German Federal Gazette (Bundesanzeiger) dated May 15, 2015, and passed in this form.

By way of resolution by the AGM of June 23, 2015, the Executive Board was authorized to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,686,350.00 by issuing up to 3,686,350 new bearer shares in exchange for cash and/or non-cash capital contributions on one or more occasions on or before June 22, 2020 (Approved Capital 2015). Subscription rights must be granted to the shareholders as a matter of principle. The Executive Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights specifically in the following cases:

a) when issuing new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock market price of the company's shares endowed with the same rights. However, this authorization is subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorization under exclusion of the subscription right pursuant to Sections 203 (1), and 186 (3) Clause 4 of the German Stock Corporation Act (AktG) does not exceed ten percent of the company's share capital at the time when the present authorization takes effect, or when it is exercised, whichever is lower;
b) when issuing new shares in exchange for non-cash capital contributions, particularly for the purpose of acquiring companies, parts of companies, and/or investments in companies. However, this authorization is limited to the extent that the number of shares issued under exclusion of subscription rights after the exercise of this authorization or another authorization granted by the AGM (including the authorizations defined in Sections a and c of the present resolution) does not exceed thirty percent of the share capital at the time when this authorization takes effect or when it is exercised, whichever is lower.
c) in order to grant the bearers of warrant or conversion rights, or warrant or conversion obligations, arising from bonds with warrants or conversion rights as issued by the Company or a company in which the Company holds a direct or indirect majority interest, or warrant or conversion obligations, subscription or exchange rights to new shares in the scope to which they would be entitled as shareholders after exercising the warrant or conversion right, or satisfying the warrant or conversion obligation;
d) for fractional amounts.

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

No further stock options may be issued under the authorization approved by the AGM of July 7, 2006, which was operative until July 1, 2011, to establish a Stock Option Plan 2006, which entailed the issuance of stock options granting subscription rights to shares in the Company to members of the Executive Board, members of the senior management of Group companies, and other selected executives and key employees, under exclusion of shareholders' subscription rights. No stock options were exercised in the 2016 financial year. A total of 35,500 options were still outstanding as of December 31, 2016. After the option holder left the company as of the end of December 31, 2016, these options lapsed with effect as of January 1, 2017. Further details on the Stock Option Plan are provided in the notes to the consolidated financial statements (section F, chapter (39)).

Also based on an AGM resolution of June 23, 2015, the Executive Board is authorized, with Supervisory Board assent, to issue by the end of June 22, 2020, once or on several occasions, bearer or registered convertible bonds, bonds with warrants, and/or profit participation bonds, and/or profit participation rights (or combinations of such instruments) (together referred to as "bonds"), with or without maturity limitation, in a total nominal amount of up to EUR 40,000,000.00, and to substantiate conversion or warrant rights for bondholders to subscribe for up to 3,643,850 ordinary bearer shares in the Company with a proportional amount of the share capital totaling up to EUR 3,643,850.00. The shareholders are to be entitled to subscription rights to the bonds, as a matter of principle.

The Executive Board is nevertheless authorized, with Supervisory Board assent, to exclude shareholders' subscription rights in relation to the bonds:

a) for fractional amounts;
b) to the extent that it is requisite to grant to the holders of previously issued conversion or warrant rights relating to shares in the Company, or the holders of convertible bonds issued with conversion rights, a subscription right to the extent to which they would be entitled as shareholders after exercising such conversion or warrant rights, or after fulfilling conversion obligations;
c) to the extent that bonds with conversion and/or warrant rights, or conversion obligations, are to be issued against cash consideration, and the issue price is not significantly less than theoretical market value of the bonds with conversion and/or warrant rights, or warrant obligations, as calculated applying recognized finance-mathematical methods. This authorization relating to exclusion of subscription rights is nevertheless valid only to the extent that a proportional amount of not more than 10 percent of the share capital (and specifically neither at the date of the becoming operative nor at the date of the exercising of the authorization) is attributable to shares to be issued for the servicing of the conversion and warrant rights, or satisfaction of conversion obligations ("maximum amount").

The Executive Board is authorized, with Supervisory Board assent, and as part of further stipulations by the corresponding AGM resolution (that can be downloaded from the company's website under "Investor Relations", and then under "2015 Annual General Meeting", and in the German Federal Gazette (Bundesanzeiger) published May 15, 2015, agenda item 8 No. 2 lit. f), to determine the details relating to the structuring of the respective rights.

The aforementioned AGM created Conditional Capital 2015 to service the conversion and warrant rights created in connection with bonds. The terms and conditions of the convertible bonds and/or warrant bonds are to be determined separately, with Supervisory Board assent.

The company's syndicated loan agreement that was concluded on May 11, 2012, and recently amended and last reworded as a result of an agreement dated March 18, 2016, includes an agreement concerning a change of control. Under this agreement, all drawdowns under the credit facility will be due and payable within fourteen days if one person or several persons "acting in concert" gain/s control over the company. For this purpose, control is defined as the holding (either directly or indirectly) of a qualified minority stake (more than 30 percent) of the shares or voting rights in the company, or the right to appoint or revoke the appointments of Executive Board members, or to appoint the management and/or the Supervisory Board of the company.

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

12 COMPENSATION REPORT

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

In accordance with Section 315 (2) No. 4 of the German Commercial Code (HGB), the following section describes the basic principles of the compensation scheme for setting the total compensation of the Executive and Supervisory Board members of Phoenix Solar AG, as per Section 314 (1) No. 6 of the German Commercial Code (HGB). The compensation report also adheres to the recommendations of the German Corporate Governance Code, and itemizes compensation granted to individual Executive and Supervisory Board members.

12.2 EXECUTIVE BOARD

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

In the 2016 financial year elapsed, the total compensation of Executive Board members was composed of the non-performance related components and performance-related components described below:

Compensation components that are not dependent on performance include a basic monthly salary, the provision of a company car which can also be used for private purposes, and accident insurance cover primarily for accidents on the job, but also covering liability in the private sphere.

Furthermore, social security contributions as prescribed by the law, minimum or fixed bonuses, and additional board and lodging costs also form part of non-performance based compensation. Moreover, the Executive Board members can be granted a severance settlement in the case of early discontinuation of an employment for service contract.

Since 2013, performance-based remuneration components are determined by means of a flexible process based on target agreements that enables the Supervisory Board to agree and set goals specially aligned to the company's respective situation and the scope of responsibility assigned to the individual Executive Board Member, and to define variable compensation depending on the degree to which goals are achieved. Performance-based compensation components were agreed with the Chief Executive Officer and Chief Financial Officer.

The Chief Executive Officer and Chief Financial Officer have been offered target amounts that depend on meeting performance criteria. The performance targets are set annually by the Supervisory Board or are agreed contractually.

The only performance criterion for the bonus in 2016 is to reach a target for consolidated EBIT. In this context, 50 percent of the bonus is measured and paid on the basis of target attainment for the 2016 financial year, and the remaining 50 percent is paid after calculating target attainment for the 2017 financial year.

The performance-based compensation components are limited to 250 percent of the target amount.

Total compensation paid to the Executive Board pursuant to Section 314 No. 1 (6) of the German Commercial Code (HGB) amounted to kEUR 703 in the 2016 financial year (previous year, including compensation former directors who no longer belong to the company in the year under review: kEUR 803). The following section presents individual compensation separated according to remuneration granted and actual accruals:

Tim P. Ryan
Chief Executive Officer (CEO)

k€	Payments/benefits granted				Accruals	
	2015	2016	2015 (Min)	2015 (Max)	2015	2016
Fixed compensation	313	327	327	327	313	327
Additional benefits	69	8	8	8	69	8
Total	**382**	**335**	**335**	**335**	**382**	**335**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	0	0	0	**0**	0
Pension expense	0	0	0	0	0	0
Total compensation	**382**	**335**	**335**	**335**	**382**	**335**

Manfred Hochleitner
Chief Financial Officer (CFO)

k€	Payments/benefits granted				Accruals	
	2015	2016	2015 (Min)	2015 (Max)	2015	2016
Fixed compensation	174	200	200	200	174	200
Additional benefits	12	13	13	13	12	13
Total	**186**	**213**	**213**	**213**	**186**	**213**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	0	0	0	**0**	0
Pension expense	0	0	0	0	0	0
Total compensation	**186**	**213**	**213**	**213**	**186**	**213**

Dr. Murray Cameron
Executive Board Member

k€	Payments/benefits granted				Accruals	
	2015	2016	2015 (Min)	2015 (Max)	2015	2016
Fixed compensation	144	144	144	144	144	144
Additional benefits	9	11	11	11	9	11
Total	**153**	**155**	**155**	**155**	**153**	**155**
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	0	0	0	**0**	0
Pension expense	0	0	0	0	0	0
Total compensation	**153**	**155**	**155**	**155**	**153**	**155**

Olaf Laber
Executive Board Member until 01/31/2015

k€	Payments/benefits granted				Accruals	
	2015	2016	2015 (Min)	2015 (Max)	2015	2016
Fixed compensation	13	0	0	0	13	0
Additional benefits	1	0	0	0	1	0
Severance payment	68	0	0	0	68	0
Total	**82**	0	0	0	**82**	0
One-year variable compensation	0	0	0	0	0	0
Multi-year variable compensation	0	0	0	0	0	0
Total	**0**	0	0	0	**0**	0
Pension expense	0	0	0	0	0	0
Total compensation	**82**	0	0	0	**82**	0

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

Dr. Murray Cameron still held 35,500 stock options from the SOP 2006 as of the end of December 31, 2016. The stock options could only have been exercised if Dr. Cameron had been employed by the company on the basis of an unterminated employment contract. Furthermore, the stock options could only been exercised if the share price on the exercise date had exceeded a specific share price level on at least ten consecutive trading days. Dr. Murray Cameron left the company as of the end of December 31, 2016, as a consequence of which the stock options have now lapsed.

No loans were extended to members of the Executive Board.

12.3 SUPERVISORY BOARD

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

As a further benefit, the company provides insurance cover for the members of the Supervisory Board and technical support to the Supervisory Board Chair within a scope appropriate for the exercising of related tasks.

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

Supervisory Board compensation comprised no performance-related compensation components or compensation components of long-term incentive effect in either the 2016 or 2015 financial years.

Overall, Supervisory Board compensation amounts to kEUR 106 in 2016 (previous year: kEUR 120). The following compensation amounts were paid individually (net amounts excluding VAT):

k€	Performance-based components (incl. ancillary benefits)		Total	
	2015	2016	2015	2016
J. Michael Fischl (until 06/23/2015)	23	0	23	0
Oliver Gosemann	44	48	44	48
Prof. Dr. Thomas Zinser	38	33	38	33
Hans-Gerd Füchtenkort (since 06/23/2015)	15	25	15	25
Total	**120**	**106**	**120**	**106**

13 RESPONSIBILITY STATEMENT

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

Sulzemoos, March 22, 2017

Tim P. Ryan
(Chief Executive Officer)

Manfred Hochleitner
(Chief Financial Officer)

CONSOLIDATED FINANCIAL STATEMENTS

PUSUANT TO IFRS FOR THE FINANCIAL YEAR FROM JANUARY 1 UNTIL DECEMBER 31, 2016 OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

Consolidated income statement 085
Consolidated statement of comprehensive income 085
Consolidated balance sheet 086
Consolidated statement of changes in equity 088
Consolidated cash flow statement 089

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

CONSOLIDATED INCOME STATEMENT

pursuant to IFRS for the period from January 1 until December 31, 2016 k€	Notes C.	01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
Revenues	(1)	139,239	119,407
Cost of materials	(3)	121,675	109,425
Gross margin		17,564	9,982
Other operating income	(2)	4,498	5,324
Personnel expenses	(4)	11,349	7,626
Other operating expenses	(6)	9,134	7,917
EBITDA		**1,579**	**– 237**
Depreciation and amortization	(5)	1,011	1,366
Operating result		**569**	**– 1,603**
Result from associated companies	(7)	42	24
EBIT		**611**	**– 1,579**
Financial income		293	98
Financial costs		4,555	4,464
Financial result	(8)	**– 4,262**	**– 4,367**
Consolidiated net income before income taxes (EBT)		**– 3,651**	**– 5,946**
Income taxes	(9)	1,069	– 317
Consolidiated net income for the period		**– 4,720**	**– 5,629**
– of which due to minority interest		– 118	– 406
– of which due to majority shareholders		– 4,602	– 5,223
Earnings per share	(10)		
Earnings per share (basic) (in €)		– 0.62	– 0.71
Earnings per share (diluted) (in €)		– 0.62	– 0.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

pursuant to IFRS for the period from January 1 until December 31, 2016 k€	Notes C.	01/01/2016 – 12/31/2016	01/01/2015 – 12/31/2015
Consolidiated net income for the period	(33)	**– 4,720**	**– 5,629**
Differences from currency translation		159	256
Changes in value recognized directly under equity	(26)	**159**	**256**
Overall performance		**– 4,561**	**– 5,373**
– of which due to minority interest	(33)	– 118	– 406
– of which due to majority shareholders		– 4,443	– 4,967

CONSOLIDATED BALANCE SHEET

pursuant to IFRS as at December 31, 2016

ASSETS	Notes	12/31/2016	12/31/2015
k€	C. and D.		
Non-current assets			
Intangible assets	(11)	92	247
Goodwill	(12)	298	298
Property, plant and equipment	(13)	6,150	13,702
Investments in associates	(15)	387	387
Other participating interests	(16)	293	150
Non-current receivables	(17)	476	467
Deferred tax assets	(9)	1,480	1,862
Non-current other financial assets	(24)	144	144
Total non-current assets		**9,320**	**17,257**
Current assets			
Inventories	(18)	1,441	1,952
Prepayments	(19)	301	4,878
Receivables from long-term construction contracts	(20)	12,403	6,471
Trade receivables	(21)	7,343	9,917
Current other financial assets	(22)	1,193	3,004
Current other non-financial assets	(24)	4,125	4,233
Current income tax assets	(9)	1,000	857
Cash and cash equivalents	(25)	9,392	4,875
Total current assets		**37,196**	**36,187**
Total assets		**46,516**	**53,444**

LIABILITIES AND SHAREHOLDERS' EQUITY k€	Notes C. and D.	12/31/2016	12/31/2015
Equity			
Subscribed capital	(26)	7,373	7,373
Capital reserve	(26)	64,582	64,582
Accumulated other equity	(26)	– 84,631	– 80,188
Share of majority shareholders in consolidated equity		– 12,676	– 8,234
Share of minority interest in consolidated equity		564	681
Total equity		**– 12,112**	**– 7,553**
Non-current liabilities and provisions			
Non-current financial liabilities	(27)	35,285	39,059
Non-current provisions	(28)	767	660
Deferred tax liabilities	(9)	91	4
Total non-current liabilities and provisions		**36,143**	**39,723**
Current liabilities and provisions			
Current financial liabilities	(27)	16	0
Liabilities from long-term construction contracts		289	8,631
Trade payables	(29)	17,793	9,496
Other financial liabilities	(30)	1,935	1,062
Other non-financial liabilities	(30)	1,308	1,487
Current provisions	(28)	562	532
Current income tax liabilities		584	67
Total current liabilities and provisions		**22,486**	**21,274**
Total liabilities and shareholders' equity		**46,516**	**53,444**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 01/01/2015 until 12/31/2016 k€	Notes E.	Subscribed capital	Capital reserve	Unappropriated profit and retained earnings	Currency translation reserve	Accumulated other equity	Share of majority interest in consolidated equity	Share of minority interest in consolidated equity	Total equity interest
As per January 1, 2015		**7,373**	**64,582**	**– 75,803**	**650**	**– 75,153**	**– 3,199**	**1,612**	**– 1,584**
Payment of dividends (minorities)								– 524	– 524
Difference from currency translation	(31)				256	256	256	0	256
Adjustment on retain earnings				– 68		– 68	– 68		– 68
Consolidated net income for the period				– 5,223		– 5,223	– 5,223	– 406	– 5,629
As per December 31, 2015		**7,373**	**64,582**	**– 81,094**	**906**	**– 80,188**	**– 8,234**	**681**	**– 7,553**
As per January 1, 2016		**7,373**	**64,582**	**– 81,094**	**906**	**– 80,188**	**– 8,234**	**681**	**– 7,553**
Difference from currency translation	(31)				159	159	159		159
Consolidated net income for the period				– 4,602		– 4,602	– 4,602	– 118	– 4,720
As per December 31, 2016		**7,373**	**64,582**	**– 85,696**	**1,065**	**– 84,631**	**– 12,676**	**564**	**– 12,112**

CONSOLIDATED CASH FLOW STATEMENT

pursuant to IFRS for the period from January 1 until December 31, 2016 k€	**Notes C. and D.**	**01/01/2016 – 12/31/2016**	**01/01/2015 – 12/31/2015**
Consoldiated income before income taxes		– 3,651	– 5,946
Depreciation and amortization	(5)	1,011	1,366
Other non-cash income (–) and expenses (+) (including result from associated companies)	(7)	– 116	– 796
Profit/loss from disposal of intangible assets and equipments		– 1,574	0
Financial income	(8)	– 293	– 98
Financial costs	(8)	4,555	4,464
Sub-total		**– 68**	**– 1,010**
Increase/decrease in provisions (net of discounting effects and non-cash releases)	(28)	– 22	– 607
Increase/decrease in inventories	(18)	647	73
Increase/decrease in prepayments	(20)	4,577	– 4,837
Increase/decrease in receivables from long-term construction contracts	(20)	– 5,931	– 5,446
Increase/decrease in trade receivables (excl. non-cash transactions)	(21)	2,435	559
Increase/decrease in assets	(23), (24), (25)	2,265	2,636
Increase/decrease in liabilities	(27)	683	14,606
Funds generated by operating activities		**4,585**	**5,975**
Interest paid	(8)	– 4,515	– 3,852
Interest received	(8)	280	0
Income taxes paid	(9)	– 226	– 348
Cash flow from operating activities		**124**	**1,775**
Proceeds from associated companies	(42)	42	24
Proceeds from disposal of intangible assets and equipment	(14)	1,248	0
Purchase of intangible assets and equipment	(14)	– 269	– 196
Investment in financial assets	(16)	– 142	0
Proceeds from the disposal of consolidated companies and other business units	(14)	7,789	0
Cash flow from investing activities		**8,668**	**– 172**
Payments in connection with financial liabilities	(27)	– 3,775	486
Commission for syndicated loan agreement		– 500	– 426
Interest income		0	98
Cash flow from financing activities		**– 4,275**	**158**
Changes in cash and cash equivalents		4,517	1,761
Net change in cash and cash equivalents		**4,517**	**1,761**
Cash and cash equivalents at the start of the period	(25)	4,875	3,114
Cash and cash equivalents at the end of the period	(25)	9,392	4,875
Increase/decrease in cash and cash equivalents		**4,517**	**1,761**

NOTES

TO THE IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR
OF PHOENIX SOLAR AKTIENGESELLSCHAFT, SULZEMOOS

A. Basic principles and methods 091
B. Accounting policies 101
C. Notes to the consolidated income statement 112
D. Notes to the consolidated balance sheet 119
E. Additional notes to the consolidated financial statements 136
F. Other disclosures 138
G. Supplementary further disclosure requirements 147
H. Date and signing of the consolidated financial statements 149

A. BASIC PRINCIPLES AND METHODS

(1) GENERAL

As of December 31, 2016, the Phoenix Solar Group (also referred to hereinafter as the "Phoenix Solar Group") consisted of 23 companies with a total of 107.5 (previous year: 84) employees (calculated as full-time employees, excluding temporary employees and trainees, and excluding members of the Executive Board).

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

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

The parent company's business purpose comprises the development, production, sales, operation and administration of components and systems for generating energy from renewable energy sources, and the assembly and maintenance of such equipment. The Phoenix Solar Group also distributes components and systems for generating energy from renewable energy sources. The company is entitled to engage in any business which directly or indirectly serves its business purpose. It can establish branch operations or branch offices both in Germany and abroad, and acquire interests in identical or similar operations. It can pursue its business purpose as a holding company, whether wholly or in part. In 2016 the company's activities took place almost exclusively in North America, the Middle East, Asia and in the Eurozone.

(2) INFORMATION ABOUT ACCOUNTING POLICIES

As a consequence, Phoenix Solar AG prepares its consolidated financial statements in accordance with the regulations of International Financial Reporting Standards (IFRS) which are applicable as of December 31, 2016, and which have been issued by the International Accounting Standards Board (IASB) in London, and which the EU had adopted by the date when this set of consolidated financial statements was prepared. All of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) applicable for the 2016 financial year, and the earlier interpretations of the Standing Interpretations Committee (SIC), insofar as the EU had adopted them by the date when these consolidated financial statements were prepared, as well as the supplementary provisions of Section 315a (1) of the German Commercial Code (HGB) have been complied with in these consolidated financial statements. Accordingly, the financial statements consist of the consolidated income statement and the statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements. The consolidated financial statements were supplemented to include a Group management report pursuant to the regulations of Section 315a HGB. The consolidated financial statements were prepared on the basis of the going-concern principle and the historical cost principle, with the exception of the fair model value applied for purposes of measuring derivative financial instruments.

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

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

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

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

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

In relation to the recognition of receivables arising from the construction contracts, the Group employs qualified distinction criteria in determining whether to apply the percentage-of-completion method or the zero profit method pursuant to IAS 12. Sector trends and related further developments in contract structures partially necessitate estimating the occurrence of suspensive contractual terms as of the reporting date. Although the Phoenix Solar Group's project controlling function applies the most probable outcome of a contract to the greatest possible extent as the basis to assess applicability of the percentage-of-completion method, it is nevertheless possible that somewhat unlikely scenarios occur, thereby necessitating the reclassification of a construction contract as a zero profit method contract according to proportionate profit recognition principles. Such reclassification could lead to a differing presentation of financial position and performance.

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

- **INCOME TAXES**

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

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

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

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

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

- **MEASUREMENT OF STOCK OPTIONS**

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

- **MEASUREMENT OF LONG-TERM COMPENSATION INCENTIVES**

The previous performance-related compensation was modified in 2013 to a flexible format with agreed targets that enable the Supervisory Board to agree or set targets tailored to the particular situation of the company and the areas of responsibility of individual Executive Board members, and to shape the variable remuneration as a function of achieving these targets. The basis for assessing targets always covers several years in order to reflect the company's sustainable growth and development. The Supervisory Board can nevertheless diverge from this principle depending on the company's situation, and opt for a single-year basis, for instance. No utilization was made of this in the 2016 financial year.

- **RECOGNITION AND MEASUREMENT OF PROVISIONS AND/OR CONTINGENT LIABILITIES**

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

a) The following amendments to existing standards and interpretations must be applied for the first time for financial years starting from January 1, 2016:

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

- **IAS 1 „Disclosure Initiative":** The amendments aim to eliminate hurdles that preparers of financial statements perceive in relation to the exercising of discretion in the presentation of financial statements.
- The amendment to **IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations"** relates particularly to the disposal method, specifically requiring adoption of separate guidelines in instances where an entity directly reclassifies an asset from the "held for sale" to the "held for distribution to owners" category, and (in reverse) in instances where categorization as "held for distribution to owners" is discontinued.
- The amendment to **IFRS 7 "Financial Instruments: Disclosures"** clarifies whether a servicing agreement represents a continuing involvement in relation to a transferred asset, to determine disclosures to be made in notes to financial statements. This results in an amendment relating to offsetting in connection with condensed interim reports. This amendment clarifies that disclosures relating to offsetting are not explicitly required for all interim reporting periods. Such disclosures can be required in individual cases to comply with IAS 34, however.
- The amendments to **IFRS 10, IFRS 12 and IAS 38 "Investment Entities"** serve to clarify questions relating to applying the exception to the requirement to consolidate pursuant to IFRS 10.4 if the parent entity is an investment entity.
- Amendments to **IFRS 11 "Acquisition of an Interest in a Joint Operation":** Accordingly, purchasers of interests in joint operations that comprise operations as defined in IFRS 3 must apply all principles relating to the accounting treatment of business combinations arising from IFRS 3 and other IFRSs, as long as they do not contravene the principles of IFRS 11.
- The amendments to **IAS 16 and IAS 38** provide guidelines as to which methods are to be applied to depreciate property, plant and equipment and amortize intangible assets, especially in relation to revenue-based depreciation/amortization methods.
- The amendments to **IAS 19 "Employee Benefits"** clarify, in particular, that high-grade corporate bonds utilized to calculate discounting rates for post-retirement employee benefits should be denominated in the same currency as the payments to be rendered.

- The amendment to **IAS 27 "Equity Method in Separate Financial Statements":** The amendments re-permit the equity method as an accounting option for interests in subsidiaries, joint ventures and associates in the separate financial statements of an investor. Following EU endorsement on December 18, 2015, the first-time application date is as of January 1, 2016.
- The amendments to **IAS 34 "Interim Financial Reporting"** relate especially to the disclosure of information "elsewhere in the interim report", clarifying the meaning of "elsewhere in the interim report". This amendment now also requires that a source reference be made to this other section, if it is not located within the main body of the interim report.

The application of these amendments has no effects on the consolidated financial statements of Phoenix Solar AG for the 2016 financial year, due to lack of relevance.

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

- **IAS12 "Recognition of Deferred Tax Assets for Unrealized Losses":** The current amendments clarify how tax assets for unrealized losses on the fair value measurement of debt instruments, which are reported under other comprehensive income, are to be recognized. The new regulations are to be applied for financial years commencing on or after January 1, 2017. Early voluntary application is possible.
- Amendments to **IFRS 2 "Classification and Measurement of Share-based Payment Transactions":** The amendments relate to three specific areas – namely the specification of relevant exercise conditions on net-settled share-based payments as well as clarifying the accounting approach for reclassifying cash-settled payments to equity-settled payments.
- **IFRS 14 "Regulatory Deferral Accounts":** According to this standard, only entities that are first-time IFRS adopters are permitted to continue to report regulatory deferral accounts according to their previous accounting policies following transition to IFRS. This new standard is to be applied from January 1, 2016 and has not been adopted by the EU. This is intended as a short-term interim solution until the IASB concludes its longer term underlying project on price-regulated transactions.
- **IFRS 15 "Revenue from Contracts with Customers":** This new standard provides rules on when, and to what level, revenue is to be recognized. IFRS 15 replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", and a number of revenue-related interpretations. The version of IFRS 15 published on May 28, 2014 included a first-time application date on January 1, 2017, or financial years beginning thereafter. The IASB approved "Effective Date of IFRS 15" on September 11, 2015, moving the mandatory first-time application date of IFRS 15 to January 1, 2018. All IFRS first-time adopters must apply IFRS 15, and it applies to almost all contracts with customers – leases, financial instruments and insurance contracts are the main exceptions. The Phoenix Solar Group is currently unable to make any statement concerning potential modifications and adjustments to existing accounting practice. Corresponding projects have been started.
- **IFRS 16 "Leases":** The IASB has published a new standard the replaces the existing IAS 17 standard on lease accounting, as well as the interpretations IFRIC 4, SIC-15 and SIC-27. The main new aspects introduced by IFRS 16 relate to accounting practice for the lessee. In the case of all leases, lessees are now required to recognize as assets the rights of utilization that they obtain, and to recognize as liabilities the payment obligations that they assume. This standard requires mandatory application from January 1, 2019. The Phoenix Solar Group is currently unable to make any statement concerning potential modifications and adjustments to existing accounting practice. Corresponding projects have been started.

- Amendments to **IAS 7 "Statements of Cash Flows":** These amendments pursue the aim of providing readers of financial statements with information that enables them to better assess changes in liabilities from financing activities.
- **IFRS 9 "Financial Instruments"** was granted EU Endorsement in 2016 and is applicable from January 1, 2018. It is divided into three phases: classification and measurement, impairment and hedge accounting. No significant effects arise from the classification of financial assets. The classification of financial liabilities is unchanged. Risk provisioning will tend to increase in the case of impairment. Hedge accounting is not in application. The Phoenix Solar Group is currently unable to make any statement concerning potential modifications and adjustments to existing accounting practice. Corresponding projects have been started.
- Amendments to **IFRS 10/IAS 28:** The amendments should clarify that, in the case of transactions with associates or joint ventures, the extent of recognition of profit or loss depends on whether the sold or contributed assets comprise an operation. As it is currently not known whether and when the "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" project will result in a revision of IAS 28, and the first-time application date of this revision is also unclear, the IASB has decided to postpone the date of coming into force for an indefinite period.
- **IFRIC 22 "Foreign Currency Transactions and Advance Consideration":** The timing of the transaction for purposes of determining the exchange rate is the first-time recognition of the non-monetary asset from the advance payment, the recognition of the non-monetary asset from the advance payment or the non-monetary liability from the deferred income. IFRIC 22 comes into force for reporting periods beginning on or after January 1, 2018. Earlier adoption is permitted.

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

On November 19, 2015, with draft ED/2015/10, the IASB has published Annual Improvements 2014-2016 Cycle. The amendments that are proposed in this cycle relate to the following standards:

- **IFRS 1 "First-time adoption of IFRSs":** The short-term exempting provision in IFRS 1. Appendix E (IFRS 1.E3-E7) for first-time adopters is canceled. The mandatory first-time application date is January 1, 2018.
- **IFRS 12 "Disclosure of Interests in Other Entities":** The amendment clarifies that the disclosures are also valid for interests that fall into the application scope of IFRS 5 (except IFRS 12.B10-B16).
- **IAS 28 "Investments in Associates and Joint Ventures":** The amendment clarifies that the option to recognize an interest in an associate or joint venture as measured at fair value through profit or loss on initial recognition can be exercised differently for each interest. The mandatory first-time application date is January 1, 2018, and the amendment can be applied earlier voluntarily.
- **IAS 40:** A transfer to or from the inventory of **investment property** only occurs if an evident change of use occurs. The indicators listed in IAS 40.57 for the existence of a change of use do not represent a conclusive list in this context. The mandatory first-time application date is January 1, 2018, and the amendment can be applied earlier voluntarily.

The draft does not yet include a date when the amendments become operative. The deadline for comments on this draft ended on February 17, 2016.

On January 13, 2017, the IASB published draft ED/2017/1 with the "Annual Improvements to IFRSs 2015 – 2017 Cycle". In its draft, the IASB proposes the following amendments to individual standards:

- **IAS 12 "Income Taxes":** The clarification in IAS 12 relates to the recognition of tax effects from dividend payments from financial instruments reported as equity. It was previously unclear whether such effects were to be recognized in profit or loss, or were to be carried directly to equity. It was also unclear whether the regulations of IAS 12.52B relating to the recognition of the income tax effect from dividends were only applicable to the cases specified in IAS 12.52A, in other words, in the case of different tax rates on distributed and retained earnings, as well as payments from financial instruments (reported as equity) above and beyond this. The IASB eliminated this lack of clarity through moving the regulation from IAS 12.52B to IAS 12.58B. No first-time application date is yet planned for the proposed amendment, and will not be set until after the amendment has been approved.
- **IAS 23 "Borrowing Costs":** With an amendment to IAS 23.14, the IASB proposes to clarify that, in the case of borrowing costs eligible for capitalization, the loans drawn upon to purchase the qualifying asset should not be included until the intended use or disposal of the asset is clear. No first-time application date is yet planned for the proposed amendment, and will not be set until after the amendment has been approved.
- **IAS 28 "Investments in Associates and Joint Ventures":** To date it has not been clear from either IAS 28 or IFRS 9 Financial Instruments how non-current interest that are to be regarded economically as net investments in an associate or joint venture and that are not equity accounted are to be recognized. Through introducing IFRS 28.14A, the IASB proposes a clarification of how such assets are to be reported pursuant to IFRS 9. The impairment regulations of IFRS 9 are also to be applied to such cases correspondingly. Analogously to the first-time application of IFRS 9, the amendment to IAS 28 is to be applied for the first time to financial years beginning on or after January 1, 2018. The deadline for comments on this draft ended on April 12, 2017.

(3) REPORTING DATE

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

(4) DATE OF AUTHORIZATION FOR ISSUE

The financial statements were approved for publication on March 22, 2017. Authorization was issued by the Executive Board before the financial statements were forwarded to the Supervisory Board for approval.

(5) CONSOLIDATION PRINCIPLES

SCOPE OF CONSOLIDATION

All subsidiaries in accordance with the principles of IAS 10 were included in the consolidated financial statements of Phoenix Solar AG. Both the smallest and largest consolidation scope exist at the level of Phoenix Solar AG at the same time. The scope of consolidation of the Phoenix Solar Group has changed compared with December 31, 2015, as presented below.

Besides parent company Phoenix Solar AG, the following companies – permanent subsidiaries and project subsidiaries – formed the scope of consolidation as of December 31, 2016:

Subsidiaries	Type of consolidation	Equity/voting rights interest
Phoenix Solar S.L., Madrid, Spain	Full consolidation	100 %
Phoenix Solar M.E.P.E., Athens, Greece	Full consolidation	100 %
Phoenix Solar SAS, Lyon, France	Full consolidation	100 %
Phoenix Solar America GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix Solar Overseas GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix Solar Inc., San Ramon, USA	Full consolidation	100 %
Phoenix Solar Pte Ltd., Singapore, Singapore	Full consolidation	75 %
Phoenix Solar Sdn Bhd, Kuala Lumpur, Malaysia	Full consolidation	75 %
Phoenix Solar Philippines Inc., Manila, Philippines	Full consolidation	75 %
Phoenix Solar L.L.C., Muscat, Oman	Full consolidation	70 %
Phoenix Solar Fonds Verwaltung GmbH, Sulzemoos, Germany	Full consolidation	100 %
Phoenix Solar Yenilenebilir Enerji A. Ş., Ankara, Turkey	Full consolidation	100 %

Project subsidiaries	Type of consolidation	Equity/voting rights interest
SOMI GmbH, Sulzemoos, Germany	Full consolidation	100 %
Exploris GmbH, Sulzemoos, Germany	Full consolidation	100 %
Grundstücksgesellschaft Jocksdorf II GmbH, Sulzemoos, Germany	Full consolidation	100 %
Scarlatti S.r.l., Eppan an der Weinstrasse, Italy	Full consolidation	100 %
Horus S.r.l., Ragusa, Italy	Full consolidation	100 %
Sunpremier 2030 S.L., Madrid, Spain	Full consolidation	100 %
Isla Solar S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia ed Ambiente S.r.l., Ragusa, Italy	Full consolidation	51 %
Energia zero Emissione S.r.l., Ragusa, Italy	Full consolidation	51 %
MAS Solar S.r.l., Ragusa, Italy	Full consolidation	51 %

To strengthen business activities in Turkey, Phoenix Solar AG (parent company) founded Phoenix Solar Yenilenebilir Enerji Anonim Şirketi in Ankara, Turkey, on November 24, 2016. The company was registered in Turkey on December 28, 2016, and included in the consolidated financial statements for the first time as of December 31, 2016.

The project company Bâtisolaire 3 SAS, Champagne au Mont d'Or, France, was sold at the 2016 financial year. The corresponding agreement was signed on April 26, 2016 and the agreement went into final force on July 28, 2016. This company was deconsolidated from the financial statements as of July 31, 2016.

Except for the aforementioned companies, no changes have occurred to the scope of consolidation of Phoenix Solar AG since the start of 2016.

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

Company	Type of consolidation	Equity/voting rights interest	Equity 12/31/2016 k€	Profit/loss 2016 k€
Phoenix SonnenFonds GmbH & Co. KG B1, Sulzemoos, Germany	Equity accounted	31.2 %	455	86

Several limited commercial partnership companies for which Phoenix Solar Fonds Verwaltung GmbH acts as general partner (without holding an equity interest in any case) are not consolidated for reasons of materiality, as these companies are of subordinate importance for the Group.

k€	Total assets 12/31/2016 (HGB)	Total liabilities 12/31/2016 (HGB)	Equity 12/31/2016 (HGB)	Net profit/ loss 2016 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	191	4	187	43
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	189	4	186	41
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	190	4	186	42
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	186	4	182	39
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	191	4	187	43
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	189	5	185	41
Aktena 5 GmbH & Co. KG	844	788	56	– 37

k€	Total assets 12/31/2015 (HGB)	Total liabilities 12/31/2015 (HGB)	Equity 12/31/2015 (HGB)	Net profit/ loss 2015 (HGB)
Phoenix SonnenFonds GmbH & Co. KG A1/2 West	214	5	209	49
Phoenix SonnenFonds GmbH & Co. KG A1/2 Ost	214	5	209	49
Phoenix SonnenFonds GmbH & Co. KG A3/4 West	215	6	209	50
Phoenix SonnenFonds GmbH & Co. KG A3/4 Ost	209	5	204	46
Phoenix SonnenFonds GmbH & Co. KG A5/6 West	213	6	207	49
Phoenix SonnenFonds GmbH & Co. KG A5/6 Ost	210	4	206	46
Aktena 5 GmbH & Co. KG	967	849	118	– 21

The shares of non-controlling interests are presented under “Other investments”.

An existing 50 percent interest in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG is not included as either a joint venture or an associate in the consolidated financial statements, as Phoenix Solar AG does not exercise influence over it.

Company	Type of consolidation	Equity interest	Equity 12/31/2016 k€	Profit/loss 2016 k€
SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, & Co. KG, Grünwald, Germany	n/a	50 %	133	2

CONSOLIDATION PRINCIPLES

a) Subsidiaries

Subsidiaries are included in the parent company's consolidation scope where the parent company has control over the investee, possesses a risk burden through, or rights to, fluctuating returns from its investment, and has the capability of using its control to influence the level of return from the investee.

The purchase method is applied for business combinations. The cost of an acquisition is measured at fair value of the assets transferred, the equity instruments issued, and the liabilities assumed on the date when control is gained. On initial recognition, the identifiable assets acquired, and liabilities and contingent liabilities assumed, are measured at fair value as of the acquisition date. If the acquisition costs exceed the proportionate remeasured net assets, the difference is recognized as goodwill on the consolidated balance sheet. In the case of a negative difference arising if the acquisition costs lie below the proportionate remeasured net assets, the purchase price and the assets and liabilities are to be re-identified and remeasured. Any subsequently remaining negative difference is to be released through profit or loss.

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

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

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

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

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

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

b) Companies included for the first time

To strengthen business activities in Turkey, Phoenix Solar AG (parent company) founded Phoenix Solar Yenilenebilir Enerji Anonim Şirketi in Ankara, Turkey, on November 24, 2016. The company was registered in Turkey on December 28, 2016, and included in the consolidated financial statements for the first time as of December 31, 2016.

The aforementioned subsidiaries were added to the scope of consolidation in the 2016 financial year.

c) Associated companies

Associated companies comprise participating interests where the Group can exercise significant influence, even if it does not have control. Normally, a rebuttable presumption exists that a 20 to 50 percent investment in the equity or voting rights of a company confers significant influence. Participating interests in associates are accounted for at equity. On initial recognition as an associate, the investment in the company is measured at cost. If the acquisition cost is higher than the Group's proportionate share of equity, as remeasured at the acquisition date, goodwill is recognized in the amount of the difference. Such goodwill is not taken into consideration in calculations until the date when the parent entity gains control, although it is not recognized on the balance sheet. Goodwill continues to be recognized over subsequent periods, applying any accounting impairment losses where required. In addition, accumulated equity changes are credited, or charged, to the investment's carrying amount in subsequent periods.

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

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

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

B. ACCOUNTING POLICIES

(1) REVENUE RECOGNITION AND CONSTRUCTION CONTRACTS

REVENUE RECOGNITION

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

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

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

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

CONSTRUCTION CONTRACTS

A construction contract is a contract for the customer-specific production of individual assets or a group of mutually coordinated assets. In accordance with IAS 11, the percentage-of-completion method is used to account for construction contracts, provided that the result can be estimated reliably. In accordance with this method, contract revenues and profit are recognized in the income statement in proportion to the stage of completion in the periods in which the work is performed. In other words, revenues and profits under fixed-price contracts are recognized on the basis of the stage of completion. Risks are taken into account with all identifiable additional costs. They are recognized in proportion to the ratio of the internal and external costs incurred as of the reporting date, to the total estimated costs of each contract (cost-to-cost method).

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

Such contracts are presented as receivables and payables under long-term construction contracts. If work performed that is eligible for capitalization exceeds the related prepayments received, construction contracts are presented as "Receivables under construction contracts – PoC". If the balance after deduction of prepayments received is negative, construction contracts are presented as "Payables under construction contracts – PoC". Expected contract losses are recognized in full as provisions; identifiable risks are taken into account in determining such losses.

Borrowing costs that can be attributed directly to the acquisition or production of specific assets are added to the carrying amount of those assets, either as incidental acquisition costs or production costs. Under the PoC method, the corresponding interest costs reduce the profits from customer-specific construction contracts, as a component of production costs. This relates to fixed-price contracts and all risks are taken into account.

(2) INDIVIDUAL BALANCE SHEET ITEMS

INTANGIBLE ASSETS

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

Internally generated intangible assets are capitalized only when the corresponding expenditures can be attributed to the development phase of the respective intangible assets. The costs must be clearly attributable to a development from which the Group can expect to derive future economic benefits; such inflow of benefits must last longer than one financial year. In addition, the intention must exist to complete the asset, development must be technologically feasible, and the related necessary resources must be available. Production cost includes all directly allocable costs of development. Once recognized as expenses, development costs cannot be capitalized retrospectively. Until such time as the asset is completed, capitalized development costs are tested annually for impairment. As soon as the asset is ready for its intended use, internally generated intangible assets are amortized over their useful lives. Research expenditures are not capitalized, but are instead expensed in the period when they are incurred, based on respective cause.

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

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

GOODWILL

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

PROPERTY, PLANT AND EQUIPMENT

In accordance with IAS 16, items of property, plant and equipment are measured at cost less straight-line depreciation and impairments. The depreciation period is determined with reference to the expected economic useful life. Items of property, plant and equipment are depreciated pro rata temporis from the acquisition date. Acquisition or production cost comprises the purchase price, directly allocable costs required to bring the asset to its present location and condition as intended by the management, the estimated costs of disassembly and clearance of the asset, and the restoration of the site at which it was located. If an item of property, plant and equipment consists of more than one component and such components have differing useful lives, the significant individual components are depreciated over their individual useful lives. Maintenance and repair costs are recognized in profit or loss in the period in which they are incurred. Borrowing costs are capitalized to the extent that they are individually allocable to the acquisition of a qualifying asset.

When an item of property, plant and equipment is retired, or when no further economic benefits are expected from the asset's continued use or from its disposal, the carrying amount of that asset is derecognized. The gain or loss on the derecognition of an item of property, plant and equipment (the difference between the net selling price and the carrying amount of the asset) is recognized as other operating income or other operating expense as of the derecognition date.

Depreciation is charged on a straight-line basis pro rata temporis over the useful lives, which currently range from three to 20 years. In the case of assets with determinable useful lives, the useful lives and the amortization method applied are reviewed and adjusted when necessary. Any such adjustment is made in connection with a change to an estimate, which is recognized in profit or loss in accordance with IAS 8.

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

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

LEASES

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

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

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

OTHER INVESTMENTS

Other investments comprise long-term (non-current) financial investments in equity instruments for which no active market with listed prices exists, and whose fair values cannot be determined reliably. Other investments are measured at cost, due to the range of variation of reasonable estimates of fair value, and event probabilities of differing estimates. Other investments fall into the IAS 39 available-for-sale financial instruments category.

INVENTORIES

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

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

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

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

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

PREPAYMENTS RENDERED

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

NON-DERIVATIVE FINANCIAL INSTRUMENTS

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

On initial recognition, non-derivative financial instruments are measured at fair value, as a matter of principle, taking into account transaction costs incurred as a result of their purchase. Transaction costs incurred on the purchase of financial instruments measured at fair value through profit or loss are expensed immediately. Non-derivative financial instruments are recognized as of the settlement date. In subsequent periods, non-derivative financial instruments are always measured at fair value or amortized cost, depending on the category to which they belong. Management determines the categorization of non-derivative financial instruments on initial recognition. If no separate market value is indicated in the notes to the financial statements, the market value is approximately equal to the carrying amount.

The following categories are applied for this purpose:

- Financial assets held for trading (FAHfT) and financial liabilities held for trading (FLHfT) are measured at fair value. In the Phoenix Solar Group, such financial instruments occur only in connection with hedging transactions (derivatives). Measurement gains or losses are recognized immediately in profit or loss.
- Held-to-maturity (HtM) financial investments are measured at amortized cost. In general, such items do not occur within the Phoenix Solar Group.
- Loans and receivables (LaR) that are not held for trading purposes are measured at fair value on initial recognition, as a matter of principle, and at amortized cost applying the effective interest method in subsequent periods. Such assets in the Phoenix Solar Group include all receivables due from customers, other receivables, and loans. The fair value of non-interest-bearing and low interest-bearing receivables with a residual term of more than one year corresponds to the present value of all future payments, which are discounted applying a market interest rate appropriate in terms of risk and term. Specific write-downs are charged – if necessary up to the full amount – against receivables that are expected to default, taking into account credit risks, interest rate risks and discount risks. General credit risk is reflected by applying write-downs based on past empirical data against the receivables portfolio, as a matter of principle. Applying the gross method, the requisite write-downs are recognized in a separate account for write-downs.
- Available-for-sale (AfS) financial assets are measured at fair value, as a matter of principle. All financial assets not classified as HtF, HtM or LaR are assigned to this category, as a matter of principle; in the Phoenix Solar Group, this category is mainly composed of the assets presented under “Other investments”. The difference between acquisition cost and fair value is recognized directly in equity, taking deferred tax into account. If such assets’ fair value is permanently or materially less than their carrying amount, the impairment loss is recognized in profit or loss. Other investments for which no market prices are available and whose fair value cannot be determined reliably are measured at amortized cost.
- Financial liabilities (AmC) are initially recognized at fair value taking transaction costs into account (fair value corresponds to acquisition cost, as a rule). In subsequent periods, such liabilities (except derivative financial instruments) are measured at amortized cost, applying the effective interest method.

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

MEASUREMENT OF FINANCIAL INSTRUMENTS

Measuring and reporting the fair values of financial instruments is based on a fair value hierarchy that takes into consideration the importance of the inputs utilized for the valuation, and is structured as follows:

- Level 1: (Unadjusted) prices for identical assets and liabilities quoted in active markets.
- Level 2: Directly or indirectly observable inputs for the asset or liability that do not comprise quoted prices as per Level 1. Fair values of financial instruments of Level 2 are calculated on the basis of terms existing on the reporting date, e.g. interest rates or foreign currency exchange rates, and are calculated with the help of recognized models such as discounted cash flow models or option pricing models.
- Level 3: Inputs to which recourse is made that are not based on observable market data for measuring the assets or liabilities (non-observable inputs). In the case of the receivables in Level 3, fair value was measured taking expectations about specific losses into account, which are based to a considerable extent on the company’s assumptions concerning the counterparty’s creditworthiness.

If circumstances arise requiring another categorization, a reclassification is implemented annually.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise sight deposits with remaining terms of three months on acquisition, cash holdings and deposits on current account.

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

SUBSCRIBED CAPITAL AND CAPITAL RESERVES

Equity instruments without auxiliary conditions are always reported as equity.

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

SHARE-BASED PAYMENT TRANSACTIONS

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

All stock option plans are described in note 39.

NON-CONTROLLING INTERESTS

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

PROVISIONS

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

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

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

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

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

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

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

NON-FINANCIAL LIABILITIES

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

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

CONTINGENT LIABILITIES/ASSETS

Contingent liabilities are defined as possible obligations to third parties, where the existence of such obligations depends, however, on the occurrence of one or more uncertain future events that cannot be completely influenced. They also include existing obligations that will probably not lead to an outflow of economic benefits, or where the amount of such an outflow cannot be reliably measured. In accordance with IAS 37, contingent liabilities incurred in the ordinary course of business are not recognized on the balance sheet. Contingent liabilities related to a business combination are measured at fair value upon initial recognition.

Potential assets whose realization depends on future events that are not under the Phoenix Solar Group’s control (contingent assets) are not recognized.

INCOME TAXES

a) Current taxes on income

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

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

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

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

b) Deferred taxes

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

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

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

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

The following transactions comprise exceptions to this:

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

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

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

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

(3) APPROPRIATION OF EARNINGS

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

(4) FOREIGN CURRENCY TRANSLATION

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

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

Exchange rates applied in the consolidated financial statements:

Currency pair	Closing rate 2016	Average rate 2016	Closing rate 2015	Average rate 2015
USD / EUR	1.05356	1.10675	1.09254	1.11040
OMR / EUR	0.40417	0.42471	0.41921	0.42618
PHP / EUR	52.12850	52.44459	51.18130	50.44537
SGD / EUR	1.52338	1.52733	1.54468	1.52533
MYR / EUR	4.72244	4.57844	4.69157	4.32554
TRY / EUR	3.70871	3.33939	3.18184	3.01983

C. NOTES TO THE CONSOLIDATED INCOME STATEMENT

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

(1) REVENUES

The Phoenix Solar Group is organized by regional markets. The managing directors manage the regional business and results development, sales and personnel policy of the units allocated to them, taking regional circumstances into account.

Due to modifications to internal reporting to the Executive Board members, from the 2016 financial year the regions are identified as reportable segments (IAS 8.7 in combination with IAS 8.8).

The total revenues, including revenues from construction contracts, were divided among the reporting segments as follows:

Revenues in k€	**2016**	**2015**
USA	108,729	97,980
Middle East	20,685	8,403
Asia/Pacific	9,034	8,607
Europe	775	3,593
Holding company	17	824
Total	**139,239**	**119,407**

Revenues and the breakdown of revenues by operating segments and regions are presented in the segment report in these notes to the consolidated financial statements (note 33).

As of the reporting date, total revenues included revenues from construction contracts (according to IAS 11), which had not yet been finally invoiced, in the amount of kEUR 131,866 (previous year: kEUR 111,627).

(2) OTHER OPERATING INCOME

Other operating income **k€**	**2016**	**2015**
Electricity revenues	1,645	2,177
Gain on disposal of business units	859	0
Gain on disposal of property, plant and equipment	506	0
Income from reversal of impairment losses	377	122
Income from realized and unrealized exchange rate gains	290	70
Income from reversal of provisions and liabilities	0	1,371
Miscellaneous	821	1,584
Total	**4,498**	**5,324**

Electricity income in the financial year under review continues to relate to feed-in payments from photovoltaic plants. In the 2016 financial year, the subsidiary Bâtisolaire 3 SAS, Champagne au Mont d'Or, France, which includes a solar park, was sold. Its deconsolidation generated a gain of kEUR 859.

The gain on the disposal of property, plant and equipment arose in spring 2016 when a photovoltaic plant of the subsidiary Phoenix Solar Pte Ltd, Singapore, was sold.

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

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

The income from the release of provisions and liabilities pertained in 2015 to a large number of provisions formed in previous years, which have not been fully consumed. This income was reclassified to the corresponding expense accounts in the 2016 financial year (kEUR 165); the release of this income in the primary expense accounts occurred from 2016 due to an improved reporting structure.

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

(3) PURCHASED GOODS AND SERVICES

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

Purchased goods and services **k€**	**2016**	**2015**
Expenses for purchased goods	110,089	106,191
Expenses for purchased services	11,586	3,234
Total	**121,675**	**109,425**

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

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

(4) PERSONNEL EXPENSES

The personnel expenses are composed as follows:

Personnel expenses **k€**	**2016**	**2015**
Wages and salaries	10,240	6,518
Social security charges	1,108	1,107
Expenses for pensions and benefits	1	1
Total	**11,349**	**7,626**

The expenses for contributions to statutory pension insurance amounted to kEUR 338 (previous year: kEUR 325).

Since July 1, 2008, the company has offered all its employees a defined contribution pension plan based on deferred compensation. The company makes matching payments on the contributions of the participating employees in accordance with the regulations of tax law and social security law. The Group has not entered into any defined benefit pension commitments.

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

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

Employees (m/f)	**2016**	**2015**
Executive Board members (parent company)	3	3
Salaried employees (m/f) (full- and part-time)	108	84
Temporary help staff	1	2
Total	**112**	**91**

(5) AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization and depreciation amounted to kEUR 1,011 in the financial year under review (previous year: kEUR 1,366).

A detailed presentation of depreciation and amortization can be found in the statement of changes in non-current assets (note 14).

(6) OTHER OPERATING EXPENSES

k€	**2016**	**2015**
Administration costs	4,500	4,073
Selling and operating expenses	3,716	2,905
Miscellaneous expenses	917	939
Total	**9,134**	**7,917**

The kEUR 1,217 increase in other operating expenses is mainly due to the expansion of business activities.

Furthermore, expenses exist from exchange rate losses on translating transactions concluded in foreign currencies into the functional currency in an amount of kEUR 271 (previous year: kEUR 87), and from the realization of forward foreign currency, swap and option transactions serving these transactions as hedges in an amount of kEUR 28 (previous year: kEUR 5).

The administrative costs recognized in the financial year under review mainly comprise expenses for the Executive and Supervisory Boards, as well as for the areas of finance, personnel, legal and compliance.

Selling and operating costs include expenses for the realization of sales functions in the various regions, especially for sales commissions, transportation and transport insurance, freight, customer advice, as well as for advertising, including visits to exhibitions and trade fairs, the processing of queries and orders, calculating offers, invoicing, the invoice reminder system, as well as managing the entire process. These cost blocks also include expenses connected with maintaining the operating activities of the Phoenix Solar organization.

No research and development costs were expensed during the 2016 financial year (previous year: kEUR 0).

(7) RESULT FROM ASSOCIATED COMPANIES

Income from associated companies amounted to kEUR 42 in the financial year (previous year: kEUR 24).

(8) FINANCIAL RESULT

The net financial result of kEUR - 4,262 improved by kEUR 105 compared with the previous year. Interest expenses of kEUR 4,555 (previous year: kEUR 4,464) consisting mainly of financing loans were offset by interest income of kEUR 280 (previous year: kEUR 98) generated primarily by call accounts. No interest on qualified assets was capitalized, either in the financial year under review or in the prior year.

(9) INCOME TAXES

Income taxes comprise both current taxes on income, as well as deferred taxes, and are composed as follows:

Income taxes **k€**	**2016**	**2015**
Current taxes on income	– 514	– 183
Deferred taxes	– 555	500
Total	**– 1,069**	**317**

k€	**2016**	**2015**
Current-year income taxes	– 514	– 183
Prior years' income taxes	0	0
Total	**– 514**	**– 183**

The income tax expense reported in the 2016 financial year amounting to kEUR 1,069 (previous year: income tax income of kEUR 317) is kEUR 1,991 higher than the expected income tax income of kEUR 921 (previous year: kEUR 1,588) that would theoretically result from applying an unchanged domestic tax rate of 26.7 percent (previous year: 26.7 percent) to the Group's pretax earnings.

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

Reconciliation **k€**	**2016**	**2015**
Earnings before income taxes	– 3,451	– 5,946
Reported tax expense (previous year: tax income)	**– 1,069**	**317**
Income taxes computed applying arithmetic tax rate of 26.7 % (previous year: 26.7 %)	921	1,588
Difference	**– 1,991**	**– 1,271**
Clarification of differences:		
- Income taxes relating to other reporting periods	– 129	– 65
- Tax effect deriving from differing tax rates	213	465
- Tax effect arising from other non-deductible expenses	– 66	– 67
- Tax effect deriving from differing tax rates	– 315	– 274
- Tax effect arising from the application of tax losses (–) that were not previously recognized, and from the non-recognition of losses (+)	– 1,659	– 922
- Tax effect due to differing tax measurement bases	0	– 4
- Tax effects arising from consolidation	– 28	– 406
- Other differences	– 8	2
Total	**– 1,991**	**– 1,271**

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

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

CURRENT TAX LIABILITIES AND TAX REFUND ASSETS

The balance on the reporting date comprises actual tax receivables of kEUR 1,000 (previous year: kEUR 857) and actual tax liabilities of kEUR 584 (previous year: kEUR 67).

Income tax expenses and income are composed as follows:

Income taxes **k€**	**2016**	**2015**
Current taxes	**– 514**	**– 183**
- of which in Germany	– 150	– 28
- of which abroad	– 364	– 155
Deferred taxes	**– 555**	**500**
- of which in Germany	– 37	0
- of which abroad	– 518	500
Total	**– 1,069**	**317**

Deferred taxes are attributed to the following balance sheet items:

Deferred taxes by item **k€**	**Balance as of 12/31/2016**	**Balance as of 12/31/2015**
Deferred tax assets		
Loss carryforwards	1,471	1,398
Receivables	33	0
Other assets/consolidation	95	319
Liabilities	52	0
Provisions	33	146
Total deferred tax assets (gross)	**1,684**	**1,863**
of which: non-current	1,640	1,862
Deferred tax liabilities		
Receivables	– 185	0
Other assets/consolidation	– 110	– 5
Provisions	0	0
Total deferred tax liabilities (gross)	**– 295**	**– 5**
of which: non-current	– 205	1
Offsetting	204	1
Total deferred tax assets (net)	**1,480**	**1,862**
Total deferred tax liabilities (net)	**– 91**	**– 4**

Of the deferred taxes on tax loss carryforwards, kEUR 1,375 (previous year: kEUR 1,397) is attributable to foreign tax loss carryforwards, and kEUR 96 to German tax loss carryforwards. The increase in deferred tax on such foreign loss carryforwards derives from a detailed analysis of the allocation of value-retaining deferred tax assets in the USA and Greece relating to temporary differences or tax loss carryforwards.

No deferred tax assets were formed in relation to tax loss carryforwards of kEUR 149,196 (previous year: kEUR 147,771), as it is to be assumed that the tax loss carryforwards probably cannot be utilized as part of tax earnings planning. After consolidation measures, as of the balance sheet date deferred tax assets after offsetting amount to kEUR 1,480 (previous year: kEUR 1,862), and deferred tax liabilities amount to kEUR - 91 (previous year: kEUR - 4).

As in previous years, no deferred taxes were formed in the financial year under review for outside basis differences, as the majority of the subsidiaries possessed no distributable net assets as of the balance sheet date. Where distributable profits exist at subsidiaries, they are currently being deployed for the internal financing of the respective subsidiary. Temporary differences were measured in an amount of kEUR 187 as of December 31, 2016 (previous year: kEUR 179).

(10) EARNINGS PER SHARE

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

Basic earnings per share	**2016**	**2015**
Consolidated profit after taxes, in k€	– 4,602	– 5,223
Average number of shares in issue (number of individual shares)	7,372,700	7,372,700
Basic earnings per share (in €)	**– 0.62**	**– 0.71**

For purposes of calculating the diluted earnings per share, the weighted average number of shares outstanding is adjusted to reflect the number of potentially dilutive shares. The number of potentially dilutive shares is calculated by determining the hypothetical number of bonus shares that would have to be granted on the basis of the ratio of the share price to the exercise price. The Phoenix Solar Group stock option plan potentially results in such dilution. The exercise of the stock options granted in connection with these plans depends on the price performance of the shares of Phoenix Solar AG. Certain performance criteria that are defined in the stock option plan are applied to calculate the share price performance. Note 39 includes a detailed description of the Phoenix Solar Group's stock option plan. The following table shows the underlying calculation of potential dilution. As effects arising from potentially diluted shares arose neither in 2016 nor in the previous year, basic earnings per share do not differ from diluted earnings per share.

Diluted earnings per share	**2016**	**2015**
Consolidated profit after taxes, in k€	– 4,602	– 5,223
Average number of shares in issue (number of individual shares)	7,372,700	7,372,700
Average number of shares in issue (including potentially dilutive shares)	7,372,700	7,372,700
Diluted earnings per share (in €)	**– 0.62**	**– 0.71**

The consolidated loss incurred in 2016 has been added to accumulated other comprehensive income as of December 31, 2016.

D. NOTES TO THE CONSOLIDATED BALANCE SHEET

(11) INTANGIBLE ASSETS

The consolidated statement of changes in non-current assets shows the changes in the carrying amounts of non-current assets (note 14).

Amortization is reported under the "depreciation and amortization" item in the income statement.

Significant intangible assets k€	Carrying amount as of 12/31/2016	Carrying amount as of 12/31/2015	Remaining amortization period
ERP software	28	178	1 year
"Phoenix" trademark	3	33	1 year

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

Acquired intangible assets are amortized applying useful lives of between two and ten years.

(12) GOODWILL

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

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

In 2012, an impairment loss of kEUR 235 was applied to this goodwill. The Phoenix Solar Group conducts the annual goodwill impairment test at the level of the cash-generating units in the fourth quarter of every financial year in local currency.

Goodwill was allocated to the CGUs as presented until December 31, 2015 by allocation to functional segments (presentation until December 31, 2015)

Goodwill k€	12/31/2015
Power Plants	272
Components & Systems	0
Miscellaneous	26
Total	**298**

Segment reporting was modified in the 2016 financial year (for more detail see section 33). Given the modified reporting structure in this connection, existing goodwill was reallocated to the new operating segments. The reallocation was implemented applying the relative valuations. The impairment test was realized at the level of the operating segments and consequently at the level of the respective subsidiary to which goodwill is allocated. The goodwill in the USA reporting segment is fully attributable to Phoenix Solar Inc., San Ramon, USA. In the Asia/Pacific reporting segment, most of the goodwill of kEUR 33 is attributable to Phoenix Solar Philippines Inc., Manila, Philippines.

Goodwill **k€**	**12/31/2016**
USA	188
Middle East	30
Asia/Pacific	47
Europe	33
Total	**298**

In accordance with IFRS 3 in conjunction with IAS 38, goodwill is not amortized. Instead, an annual impairment test is conducted to review whether goodwill has retained its value. In addition, the carrying amounts of cash-generating units are compared with their capitalized value of potential earnings (value in use). The capitalized value of potential earnings is calculated applying the discounted cash flow method. For this purpose, current forecasts are applied which are largely underpinned by external data on market growth, and which are based on the three-year medium-term plan approved by management, and which are also used for internal purposes. Significant assumptions on which the management bases its calculation of recoverable amounts include forecasts of relevant market volumes, market prices and availability of solar modules, inverters and other articles in connection with the company's product range as well as regulatory conditions, growth rates and capital costs. The expected cash flows in the three-year medium-term planning deriving from the cash-generating units are discounted applying the weighted average cost of capital before tax (pretax WACC). Depending on country, the pretax WACC varies between 9.3 percent and 20.9 percent (previous year: 11.5 percent and 20.8 percent). An unchanged growth factor of one percent was imputed to calculate the perpetual return. An impairment loss is deemed to have occurred when the capitalized value of potential earnings is less than the carrying amount. The goodwill items recognized as of the reporting date required no impairment losses, even assuming that the revenues of a cash-generating unit were to be five percent less, or that interest rates were to be ten percent higher.

Guidance	**Forecasting period**	**Discounting rates**	**Cash flow growth**	**Relevered beta factor**
USA	3 years	9.2 %	89 %	2.15 %
Philippines	3 years	10.1 %	46 %	2.44 %

(13) PROPERTY, PLANT AND EQUIPMENT

The consolidated statement of changes in non-current assets presents the changes in carrying amounts (note 14). The Group opted to not present separately the additions and disposals resulting from the change in the scope of consolidation, because such transactions in connection with shell companies are immaterial for the presentation of the net assets position of the overall Group.

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

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

(14) CONSOLIDATED STATEMENT OF CHANGES IN NON-CURRENT ASSETS

Changes in non-current assets within the Phoenix Solar Group (IFRS)

	Cost				
2016 **k€**	**Balance as of 01/01**	**Addition in financial year**	**Disposal in financial year**	**Currency translation**	**Balance as of 12/31**
Internally generated intangible assets	109	0	0	0	109
Purchased intangible assets	6,098	0	148	0	5,950
Goodwill	533	0	0	0	533
Plant and equipment held by the company	15,069	0	7,330	0	7,739
Operational and business equipment	3,498	269	90	33	3,710
Leasehold improvements	1,284	0	0	0	1,284
Total non-current assets	**26,591**	**269**	**7,568**	**33**	**19,325**
2015 **k€**	**01/01/**				**12/31**
Internally generated intangible assets	131	0	0	– 22	109
Purchased intangible assets	6,071	78	51	0	6,098
Goodwill	533	0	0	0	533
Plant and equipment held by the company	15,069	0	0	0	15,069
Operational and business equipment	3,946	118	694	128	3,498
Leasehold improvements	1,284	0	0	0	1,284
Total non-current assets	**27,034**	**196**	**745**	**106**	**26,591**

(15) INVESTMENTS IN ASSOCIATES

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

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

k€	2016	2015
Carrying amount at January 1	387	397
– Dividend payment	– 42	– 34
+ Profit shares	42	24
Carrying amount at December 31	**387**	**387**

Accumulated Amortization and Depreciation						
Balance as of 01/01	Addition in financial year	Disposal in financial year	Currency translation	Balance as of 12/31	Carrying amounts 12/31/2016	Carrying amounts 12/31/2015
109	0	0	0	109	0	0
5,851	33	26	0	5,858	92	247
235	0	0	0	235	298	298
2,755	779	542	0	2,991	4,748	12,314
2,452	144	32	32	2,595	1,115	1,100
942	54	0	0	996	287	287
12,345	**1,011**	**600**	**32**	**12,785**	**6,540**	**14,246**
01/01				**12/31**	**12/31/2015**	**12/31/2014**
131	0	0	– 22	109	0	0
5,699	203	51	0	5,851	247	372
235	0	0	0	235	298	298
1,969	786	0	0	2,755	12,314	13,100
2,610	323	571	37	2,452	1,100	1,336
942	54	0	0	942	287	341
11,585	**1,366**	**622**	**15**	**12,345**	**14,246**	**15,448**

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

Summarized financial information about associates **k€**	**2016**	**2015**
Assets	455	506
Liabilities and provisions	10	11
Revenues	170	185
Equity	445	495
Total assets	455	506
Net profit for year	**86**	**96**

(16) OTHER INVESTMENTS

The “other investments” item in the financial year under review contains only the 50 percent interest in the company SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG. that was founded in the 2007 financial year. In 2016, it reported assets of kEUR 443 (previous year: kEUR 446), liabilities and provisions of kEUR 310 (previous year: kEUR 310), unchanged sales revenue of kEUR 0 (previous year: kEUR 0) and a result after tax of kEUR - 2 (previous year: kEUR - 2). Other participating interests are not consolidated due to a lack of significant influence. As no active market exists for trading in the investment, and fair value also cannot be measured reliably by other means, measurement is at purchase cost of kEUR 150 (previous year: kEUR 150). No intention currently exists to sell the investment.

In addition, since the 2016 financial year Phoenix Solar holds a participation in RRE Austin Solar LLC, Texas, USA, in the amount of kEUR 143 (previous year: kEUR 0). The share in the company is 2 per cent. Phoenix Solar has neither control nor controlling influence. The shareholding is not being included in consolidation, therefore.

(17) NON-CURRENT RECEIVABLES

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

This item also included rental deposits in the amount of kEUR 27 (previous year: kEUR 17). The rental deposits incur interest at standard market rates of 0.1 percent p. a.

(18) INVENTORIES

Inventories are comprised as follows:

Inventories **k€**	**12/31/2016**	**12/31/2015**
Merchandise (historical value of goods)	2,602	4,314
Write-downs (cumulative)	– 1,161	– 2,362
Net merchandise value	1,441	1,952
Valuation recognized on balance sheet	**1,441**	**1,952**

Merchandise inventory consists mainly of photovoltaic modules, inverters and other components used in photovoltaic plant engineering, which are usually held for less than one full financial year. Inventories include merchandise in transit of kEUR 614 (2015: kEUR 0).

Based on the estimation of the Executive Board that certain sales revenues will probably be lower than acquisition costs, such inventories were written down to their lower net realizable value less costs to sell. Write-ups during the financial year in an amount of kEUR 136 were added to cumulative write-downs (previous year: write-ups of kEUR 42).

Purchased merchandise was expensed in an amount of kEUR 110,089 in the period under review (previous year: kEUR 106,191).

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

(19) PREPAYMENTS RENDERED

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

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

As of the reporting date, gross receivables for long-term construction contracts amounted to kEUR 12,403 (previous year: kEUR 6,471). The receivables relate predominantly to projects in the USA, Turkey, Jordan and Southeast Asia. In the period from January 1 to December 31, 2016, contract revenues totaling kEUR 131,866 (previous year: kEUR 111,627), cumulative contract costs for the construction contracts that are still running as of the reporting date of kEUR 117,098 (previous year: kEUR 94,124) and accumulated reported gains of kEUR 12,618 (previous year: kEUR 9,306) were recognized. Gains in the year under review included no foreign currency effects (previous year: kEUR 0). In addition, payables from long-term construction contracts were reported in an amount of kEUR 289 (previous year: kEUR 8,631).

Advance payments on the contracts of kEUR 126,158 (previous year: kEUR 106,786) were received and a further kEUR 2,118 (previous year: kEUR 2,552) were requested.

Taking into account the requested and recognizable prepayments and partial invoices, the reported amount of kEUR 12,403 (previous year: kEUR 6,471) is composed as follows:

k€	12/31/2016	12/31/2015
Receivables under long-term construction contracts taking into account partial invoices based on stage of completion	10,285	3,919
Plus requested, recognizable partial invoices	2,118	2,552
Valuation recognized on balance sheet	**12,403**	**6,471**

Payments in respect of receivables under long-term construction contracts are expected in the time periods presented in the table below. It is assumed, on the one hand, that contracts that have been processed to date will be fulfilled on time in accordance with the planned payment agreement periods (so-called milestones) and, on the other, that no major timing differences will occur between the time when the milestone conditions are contractually fulfilled and the corresponding cash inflow. To this extent this presentation is different to that applied when payment deadlines are exceeded, for example, in the case of trade receivables (note 21).

k€		Expected receipt of payment			
As of 12/31/2016	**Carrying amount**	**In less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**in over 360 days**
Receivables from long-term construction contracts	12,403	9,652	2,751	0	0
As of 12/31/2015					
Receivables from long-term construction contracts	6,471	0	1,229	5,242	0

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

(21) TRADE RECEIVABLES

Trade receivables are composed as follows:

Trade receivables k€	12/31/2016	12/31/2015
Gross receivables	11,724	14,671
Less write-downs	– 4,381	– 4,754
Valuation recognized on balance sheet	**7,343**	**9,917**

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

The following breakdown shows the maturity structure of the receivables excluding write-downs. In other words, in contrast to the analysis of receivables under long-term construction contracts (note 20), the time bands shown represent overdue payments for receivables already realized on the reporting date, but not written down.

k€		Not written down and due on reporting date				
As of 12/31/2016	**Total**	**neither written down nor due**	**for less than 30 days**	**between 31 and 90 days**	**between 91 and 360 days**	**for over 360 days**
Trade receivables	7,343	4,428	307	0	6	2,601
As of 12/31/2015						
Trade receivables	9,917	6,448	131	343	0	2,995

The write-downs charged against trade receivables that are attributable to the measurement "loans and receivables" category reported the following changes in the year under review:

k€	2016	2015
Write-downs January 1	4,754	4,813
Exchange rate differences	0	231
Consumption	0	0
Release	– 382	– 351
Addition	9	61
Write-downs December 31	**4,381**	**4,754**

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

k€	2016	2015
Expenses for the derecognition of receivables	92	4

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

(22) OTHER FINANCIAL ASSETS

a) Other non-current financial assets

Phoenix Solar AG granted its participating interest SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG a final maturity loan of kEUR 1,047 at 6.5 percent interest until September 30, 2012, and with a term until the end of 2018. This loan was paid down to an amount of kEUR 114 by December 31, 2016. On the basis of an agreement reached in December 2012, the interest rate was reduced to 0.0 percent from October 1, 2012.

The remaining amount relates to security deposits paid which are deposited in favor of Phoenix Solar Group with renowned banks at standard market interest rates.

b) Other current financial assets

Other current financial assets are composed as follows:

Other current financial assets k€	12/31/2016	12/31/2015
Other receivables	22	2,062
Prepayments	530	708
Debit balances in supplier accounts	384	217
Miscellaneous	257	17
Total	**1,193**	**3,004**

Prepayments of kEUR 530 (previous year: kEUR 708) are reported under other non-financial assets from the 2016 financial year.

Current other receivables (kEUR 22; previous year: kEUR 1,278) were sharply reduced due to the repayment of a deposit connected with the construction of a photovoltaic plant in Bulgaria.

Miscellaneous current other financial assets include unrealized exchange rate gains from the measurement of forward currency transactions as of the reporting date of kEUR 40 (previous year: kEUR 16).

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

k€		Expected receipt of payment			
As of 12/31/2016	Carrying amount	In less than 30 days	between 31 and 90 days	between 91 and 360 days	In over 360 days
Financial assets	1,337	219	237	737	144
Residual term up to 1 year	1,193	219	237	737	0
Residual term longer than 1 year	144	0	0	0	144
As of 12/31/2015					
Financial assets	3,148	818	908	1,278	144
Residual term up to 1 year	3,004	818	908	1,278	0
Residual term longer than 1 year	144	0	0	0	144

(23) INFORMATION ABOUT FINANCIAL INSTRUMENTS BY CATEGORY

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

2016 k€	Measurement category as per IAS 39	Carrying amounts	Fair value	Level as per IFRS 13
Other investments	AfS	293	n/a	n/a
Non-current receivables	LaR	476	288	2
Other non-current financial assets	LaR	144	126	2
Receivables from long-term construction contracts	LaR	12,403	n/a	n/a
Trade receivables	LaR	7,343	n/a	n/a
Other current financial assets		1,193	n/a	n/a
– Derivatives	HfT	40	40	2
– Miscellaneous other financial assets	LaR	1,153	n/a	n/a
Cash and cash equivalents	LaR	9,392	n/a	n/a
Total assets		**31,244**	**454**	
Non-current financial liabilities	AmC	35,285	31,813	2
Current financial liabilities	AmC	16	n/a	n/a
Total financial liabilities		**35,301**	**31,813**	
Liabilities arising from long-term construction contracts	AmC	289	n/a	n/a
Trade payables	AmC	17,793	n/a	n/a
Other financial liabilities		1,935	n/a	n/a
– Derivatives	HfT	21	21	2
– Miscellaneous other financial liabilities	AmC	1,914	n/a	n/a
Total financial liabilities		**20.017**	**21**	

2015 **k€**	**Measurement category as per IAS 39**	**Carrying amounts**	**Fair value**	**Level as per IFRS 13**
Other investments	AfS	151	n/a	n/a
Non-current receivables	LaR	467	214	2
Other non-current financial assets	LaR	144	87	2
Receivables from long-term construction contracts	LaR	6,471	n/a	n/a
Trade receivables	LaR	9,917	n/a	n/a
Other current financial assets		3,004	n/a	n/a
– Derivatives	HfT	16	16	2
– Miscellaneous other financial assets	LaR	2,988	n/a	n/a
Cash and cash equivalents	LaR	4,875	n/a	n/a
Total assets		**25,029**	**317**	
Non-current financial liabilities	AmC	39,059	41,755	2
Current financial liabilities	AmC	0	n/a	n/a
Total financial liabilities		**39,059**	**41,755**	
Liabilities arising from long-term construction contracts	AmC	8,631	n/a	n/a
Trade payables	AmC	9,496	n/a	n/a
Other financial liabilities		1,062	n/a	n/a
– Derivatives	HfT	17	17	2
– Miscellaneous other financial liabilities	AmC	1,045	n/a	n/a
Total financial liabilities		**19.189**	**17**	

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

Other investments relate to interests in unincorporated firms or minority interests (see also section 16). No active market exists for such investments. As the future cash flows cannot be determined reliably, no fair value applying valuation models can be calculated. The interests in these companies are recognized at cost. Of the available-for-sale financial assets recognized as of December 31, 2016, the company does not plan to sell significant parts in the near future.

Due to the mainly short-term maturity of trade receivables and payables, other receivables and liabilities, cash and cash equivalents, the carrying amounts at the reporting date correspond to fair value. The company has refrained from making a separate disclosure of the fair values.

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

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

k€	LaR	AmC	AfS	HfT assets and liabilities	Total
Net interest result 2016	**280**	**– 4,298**	**0**	**20**	**– 3,998**
Net interest result 2015	**98**	**– 4,464**	**0**	**– 101**	**–4,467**

The net profit/loss from financial instruments in the loans and receivables category is comprised of interest income from call money market accounts. The net profit/loss on financial liabilities measured at amortized cost comprises interest paid. Financial assets and liabilities in the held-for-trading category comprise unrealized fair value changes from derivative financial instruments. The interest in SOLAR GRIECHENLAND Beteiligungsgesellschaft mbH & Co. KG, which is measured at cost and classified as an available-for-sale financial asset, reports no value changes and consequently no net profit/loss in the financial year under review (previous year: zero).

The total interest income and expenses on financial instruments measured at fair value through profit or loss is as follows:

k€	2016	2015
Interest income	293	98
Interest expenses	– 4.555	– 4.464
Total	**– 4.262**	**– 4.367**

(24) OTHER NON-FINANCIAL ASSETS

Other non-financial assets of kEUR 4,125 (previous year: kEUR 4,233) primarily comprise foreign VAT receivables in an amount of kEUR 3,038 (previous year: kEUR 2,442).

Prepayments of kEUR 530 (previous year: kEUR 708) are reported under other non-financial assets from the 2016 financial year.

(25) CASH AND CASH EQUIVALENTS

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

Cash and cash equivalents **k€**	12/31/2016	12/31/2015
Cash at banks	9,392	4,875
Total	**9,392**	**4,875**

Cash on hand and cash at banks are stated at face value. With the exception of a portion of EUR 1.0 million of cash attributable to Phoenix Solar M.E.P.E., Athens, Greece, the cash is not subject to any restrictions on availability. The currently existing restrictions on capital movements are the reason for the existing restriction of availability.

Cash on hand and cash at banks denominated in foreign currency are translated to the reporting currency at the middle market exchange rate on the reporting date. Foreign currency translation differences are recognized as other operating income or other operating expenses.

During the 2016 financial year, the interest rates for bank deposits amounted to 0.00 percent (previous year: between 0.00 percent and 0.05 percent).

(26) EQUITY

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

The share capital as of December 31, 2016, amounted to kEUR 7,372.7 (previous year: kEUR 7,372.7), which was divided into 7,372,700 (previous year: 7,372,700) no-par bearer shares (ordinary shares), and which was fully paid in as of the consolidated balance sheet date.

By way of resolution by the AGM of June 23, 2015, the Executive Board was authorized to increase the company's share capital, with the consent of the Supervisory Board, by up to EUR 3,686,350.00 by issuing up to 3,686,350 new bearer shares in exchange for cash and/or non-cash capital contributions on one or more occasions on or before June 22, 2020 (Approved Capital 2015). Subscription rights must be granted to the shareholders as a matter of principle.

The Executive Board is authorized, with the consent of the Supervisory Board, to exclude subscription rights specifically in the following cases:

a) when issuing new shares in exchange for cash capital contributions at an issue price that is not significantly less than the stock market price of the company's shares endowed with the same rights. However, this authorization is subject to the condition that the percentage of share capital represented by all the shares issued by virtue of this authorization under exclusion of the subscription right pursuant to Sections 203 (1), and 186 (3) Clause 4 of the German Stock Corporation Act (AktG) does not exceed ten percent of the company's share capital at the time when the present authorization takes effect, or when it is exercised, whichever is lower;
b) when issuing new shares in exchange for non-cash capital contributions, particularly for the purpose of acquiring companies, parts of companies, and/or investments in companies. However, this authorization is limited to the extent that the number of shares issued under exclusion of subscription rights after the exercise of this authorization or another authorization granted by the AGM (including the authorizations defined in Sections a and c of the present resolution) does not exceed thirty percent of the share capital at the time when this authorization takes effect or when it is exercised, whichever is lower.
c) in order to grant the bearers of warrant or conversion rights, or warrant or conversion obligations, arising from bonds with warrants or conversion rights as issued by the Company or a company in which the Company holds a direct or indirect majority interest, or warrant or conversion obligations, subscription or exchange rights to new shares in the scope to which they would be entitled as shareholders after exercising the warrant or conversion right, or satisfying the warrant or conversion obligation;
d) for fractional amounts.

Also based on an AGM resolution of June 23, 2015, the Executive Board is authorized, with Supervisory Board assent, to issue by the end of June 22, 2020, once or on several occasions, bearer or registered convertible bonds, bonds with warrants, and/or profit participation bonds, and/or profit participation rights (or combinations of such instruments) (together referred to as "bonds"), with or without maturity limitation, in a total nominal amount of up to EUR 40,000,000.00, and to substantiate conversion or warrant rights for bondholders to subscribe for up to 3,643,850 ordinary bearer shares in the Company with a proportional amount of the share capital totaling up to EUR 3,643,850.00. The shareholders are to be entitled to subscription rights to the bonds, as a matter of principle.

The Executive Board is nevertheless authorized, with Supervisory Board assent, to exclude shareholders' subscription rights in relation to the bonds:

a) for fractional amounts;
b) to the extent that it is requisite to grant to the holders of previously issued conversion or warrant rights relating to shares in the Company, or the holders of convertible bonds issued with conversion rights, a subscription right to the extent to which they would be entitled as shareholders after exercising such conversion or warrant rights, or after fulfilling conversion obligations;
c) to the extent that bonds with conversion and/or warrant rights, or conversion obligations, are to be issued against cash consideration, and the issue price is not significantly less than the theoretical market value of the bonds with conversion and/or warrant rights, or warrant obligations, as calculated applying recognized finance-mathematical methods. This authorization relating to exclusion of subscription rights is nevertheless valid only to the extent that a proportional amount of not more than 10 percent of the share capital (and specifically neither at the date of the becoming operative nor at the date of the exercising of the authorization) is attributable to shares to be issued for the servicing of the conversion and warrant rights, or satisfaction of conversion obligations ("maximum amount").

The Executive Board is authorized, with Supervisory Board assent, and as part of further stipulations by the corresponding AGM resolution (that can be downloaded from the company's website under "Investor Relations", and then under "2015 Annual General Meeting", and in the German Federal Gazette (Bundesanzeiger) published May 15, 2015, agenda item 8 No. 2 lit. f), to determine the details relating to the structuring of the respective rights.

The aforementioned AGM created Conditional Capital 2015 to service the conversion and warrant rights created in connection with bonds. The terms and conditions of the convertible bonds and/or warrant bonds are to be determined separately, with Supervisory Board assent.

The capital reserve consists of issue premiums paid in connection with capital increases and the recognition of stock options. The eighth capital increase that was conducted on July 13, 2010 at a placement price of EUR 32.00 per share raised gross issue proceeds of kEUR 21,446.4. After deduction of the kEUR 670.2 that was appropriated to share capital, and the net capital increase costs of kEUR 314.7, the capital reserves were increased by kEUR 20,461.5. An additional amount of kEUR 33.0 consisting of premiums resulted from the exercise in the 2010 financial year of 1,800 stock options issued in 2007; no stock options were exercised in the years 2011 to 2015.

No further stock options may be issued under the authorization approved by the AGM of July 7, 2006, which was operative until July 1, 2011, to establish a Stock Option Plan 2006 (SOP 2006), which entailed the issuance of stock options granting subscription rights to shares in the Company to members of the Executive Board, members of the senior management of Group companies, and other selected executives and key employees, under exclusion of shareholders' subscription rights. No stock options were exercised in the 2016 financial year. A total of 35,500 options were still outstanding as of December 31, 2016. After the option holder left the company as of December 31, 2016, these options lapsed with effect as of January 1, 2017. Further details on the Stock Option Plan are provided in the notes to the consolidated financial statements (section F, chapter (39)).

The profit (loss) is carried forward to a new account.

Accumulated other comprehensive income reported the following changes in the 2016 financial year:

k€	
Balance at 01/01/2016	– 80,188
Currency difference	159
Consolidated net loss for financial year 2016	– 4,602
Balance at 12/31/2016	**– 84,631**

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

INFORMATION ABOUT CAPITAL MANAGEMENT

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

The Executive Board's aim and principle is to provide the liquidity that the Group requires for its operating business and for the growth that it continues to budget, and to thereby ensure compliance with the obligations relating to the credit lines provided as part of the syndicated financing facility.

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

The Group equity ratio stood at - 26.0 percent as of December 31, 2016 as a result of the loss-making situation over the past years (December 31, 2015: - 14.1 percent). As the Group does not constitute a legally independent company itself, this negative equity ratio generates no direct going concern risk for the Group.

Solely the equity position of Phoenix Solar Aktiengesellschaft (which prepares its accounts according to the German Commercial Code (HGB)), as the parent company of the Phoenix Solar Group, is of legal relevance. This amounted to EUR 5.7 million as of December 31, 2016, equivalent to a 8.6 percent equity ratio (December 31, 2015: EUR 6.6 million, corresponding to a 12.3 percent equity ratio). In order to strengthen the parent company's equity structure, in January 2014 an intragroup transfer of the shares in the subsidiary Phoenix Solar Incorporated, San Ramon / USA, to an interim holding company was implemented as part of a non-cash capital contribution. In May 2016, the Executive Board of Phoenix Solar AG passed a resolution to withdraw the interest in the same subsidiary from the intermediate holding company again as part of a non-cash capital additional contribution, so that the participating interest was again held directly by Phoenix Solar AG.

In March 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30, 2018. The new financing facility comprises a reduced volume totaling around EUR 101 million (December 31, 2015: EUR 116 million), and consists of a syndicated loan of EUR 85.4 million (December 31, 2015: almost EUR 93 million), as well as other bilateral cash and bill guarantee lines.

(27) FINANCIAL LIABILITIES

Financial liabilities are presented with the following terms:

k€			
as of 12/31/2016	**Carrying amount/ fair value**	**Residual term up to 1 year**	**Residual term 1 to 5 years**
Financial liabilities	35,285	21,332	13,953
as of 12/31/2015			
Financial liabilities	39,059	0	39,059

The credit lines from the Group financing facility that had been running to date carried a final maturity as of September 30, 2016 on the basis of the term agreed to date. Owing to the contractual amendment signed in March 2016 concerning an extension of the existing loan agreement, and the now amended final due date of September 30, 2018, the bank borrowings are also reported as non-current as of December 31, 2016.

Note 38, which covers the topic of liquidity risk, provides further information about the scope of the syndicated agreement.

All financial liabilities carry variable interest.

(28) PROVISIONS

The provisions are composed as follows:

Non-current provisions k€	Balance as of 01/01/2016	Reclassi-fication	Consump-tion	Release	Unwinding of discount	Addition	Balance as of 12/31/2016
Warranty provisions	502	– 91	0	– 64	1	274	623
Restoration obligations	91	0	0	0	0	0	91
Miscellaneous	67	0	– 21	0	0	6	52
Total	**660**	**– 91**	**– 21**	**– 64**	**1**	**282**	**767**

Current provisions k€	Balance as of 01/01/2016	Reclassi-fication	Consump-tion	Release	Unwinding of discount	Addition	Balance as of 12/31/2016
Warranty provisions	321	134	– 63	– 177	1	116	332
Litigation and arbitration costs	84	0	– 84	0	0	200	200
Provisions for impending losses	62	0	– 41	0	0	0	21
Miscellaneous	65	– 44	– 13	0	0	0	9
Total	**532**	**91**	**– 201**	**– 177**	**1**	**316**	**562**

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

The provisions for litigation and arbitration costs are composed of two kinds of costs: anticipated costs due to court proceedings against customers for unpaid invoices, and claims asserted by customers as of the reporting date, which are at least partially unfounded from the Group's perspective. These items are always evaluated on the basis of the prospects for out-of-court settlements. As of the reporting date, the management estimates a maximum additional cost for litigation and arbitration costs of 10 percent. The period considered for this purpose is up to three years.

Miscellaneous current provisions generally only comprise cases where each individual valuation is of secondary importance.

(29) TRADE PAYABLES

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

All trade payables are due in less than one year.

(30) OTHER LIABILITIES

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

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

Other financial liabilities are composed as follows:

Other financial liabilities **k€**	**12/31/2016**	**12/31/2015**
Other*	1,220	917
Bonus commitments**	558	0
Credit balances in customer accounts	110	39
Deferred sales	47	106
Total	**1,935**	**1,062**

* The other financial liabilities include commissions of kEUR 216.
** Bonus commitments are reported under other financial liabilities from 2016 (until 2015, these were reported in an amount of kEUR 522 under other non-financial liabilities in the personnel area).

Other non-financial liabilities **k€**	**12/31/2016**	**12/31/2015**
Personnel-related liabilities*	632	677
Liabilities from prepayments received	250	180
VAT liabilities	123	177
Liabilities under wage tax and social security	183	94
Other	121	359
Total	**1,308**	**1,487**

* In 2016, the bonus commitments are no longer reported under other financial liabilities from the personnel area, but instead under other financial liabilities (2016: kEUR 558; 2015: kEUR 522)

The personnel-related liabilities relate to the following matters:

Personnel-related liabilities **k€**	**12/31/2016**	**12/31/2015**
Liabilities from current employment contracts	332	0
Liabilities for overtime and/or vacation claims	286	100
Other	14	56
Liabilities from bonus commitments*	0	522
Total	**632**	**678**

* In 2016, bonus commitments were reclassified for the first time to other financial liabilities in an amount of kEUR 558 (previous year: kEUR 522)

E. ADDITIONAL NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(31) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Detailed information on the fully paid in share capital of Phoenix Solar AG and on transactions recognized in the capital reserves, as well as detailed information on significant transactions that are not directly reflected in the respective line item of the consolidated statement of changes in equity, can be found in note 26 "Equity".

Accumulated other comprehensive income represents equity earned by the Group, as a matter of principle. It is composed of the prior-period profits and losses of the companies included in the consolidated financial statements, to the extent they have not been distributed in the form of dividends, and differences arising from currency translation of the foreign subsidiaries' separate financial statements, in the amount of kEUR 159 (previous year: kEUR 256). As in previous years, other comprehensive income did not incur any income tax (previous year: kEUR 0).

(32) CONSOLIDATED CASH FLOW STATEMENT

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

The cash flow from operating activities is calculated by means of the indirect method. This entails calculating cash flow from operating activities as follows: the consolidated pretax earnings for the period are adjusted to exclude non-cash amounts, and are supplemented to include changes in current assets and liabilities. After taking into account payments of interest and tax, this generates a cash inflow from operating activities of kEUR 124.

Significant positive effects on operating cash flow relate to the reduction in prepayments rendered (kEUR 4,577) and in trade receivables (kEUR 2,435). Moreover, kEUR 2,265 of changes in other assets and kEUR 683 of changes in inventories were added. Cash flow was particularly burdened by changes in receivables from construction contracts totaling kEUR 5,931.

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

Cash flow from investing activities was mainly affected by the disposal of the Bâtisolaire 3 project company. Notes 11 and 13 provide detailed information on capital expenditures.

In the 2016 financial year, operating activities were financed utilizing syndicated working capital financing lines (see notes 27 and 38).

The cash funds shown in the cash flow statement (cash and cash equivalents) comprise all cash and cash equivalents presented in the balance sheet, in other words, cash on hand and cash at banks, to the extent they are available within three months (note 25).

Significant non-cash transactions include write-ups to inventories amounting to kEUR 136 (previous year: write-downs of kEUR 42), and a reduction of write-downs or write-offs to the receivables portfolio in the amount of kEUR 92 (previous year: allocations of write-downs or write-offs of kEUR 63).

F. OTHER DISCLOSURES

(33) SEGMENT REPORTING

OPERATING SEGMENTS

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

Phoenix Solar is organized by regional markets. The managing directors manage business and results development, sales and personnel policy of the units allocated to them, taking regional circumstances into account. The subsidiaries existing in the markets of relevance for Phoenix Solar comprise the operating segments pursuant to IFRS 8.5. In application of IFRS 8.12, the operating segments are aggregated to form the reporting segments of Middle East, Asia/Pacific and Europe. No aggregation of operating

Financial Year 2016 k€	USA	Middle East	Asia/ Pacific	Europe	Holding company	Total
Segment income statement						
External revenues	108,729	20,685	9,034	775	17	139,239
Segment profit or loss	4,622	635	– 231	406	– 4,862	569
Income from associated companies					42	42
EBIT	4,622	635	– 231	406	– 4,820	611
Financial result					– 4,262	– 4,262
Consolidated earnings (loss) before tax						– 3,651
Income taxes					– 1,069	– 1,069
Consolidated net profit/loss						**– 4,720**
– of which attributable to non-controlling interests						– 118
– of which attributable to the majority shareholders						– 4,602
Other information						
Capital expenditures	215	0	35	3	84	337
Amortization, depreciation and impairment losses	77	12	40	621	261	1,011
Non-cash expenses	290	4	163	43	155	655
Non-cash income	133	8	80	18	328	567
Assets						
Segment assets	16,964	2,845	4,587	14,293	7,440	46,129
Investments in associates					387	387
Consolidated assets	**16,964**	**2,845**	**4,587**	**14,293**	**7,827**	**46,516**

segments is performed for the USA and holding company segments. The operating segments were aggregated to form reporting segments on the basis of economically comparable characteristics. The respective companies of the Middle East, Asia/Pacific and Europe reporting segments exhibit comparable gross margins. The services of the Phoenix Solar Group companies are generally uniform worldwide and comprise the engineering, procurement and construction of solar plants. The individual regions nevertheless exhibit differences among themselves. The USA builds mainly in the dimensions 50 MWp to 100 MWp. Primarily commercial and industrial rooftop systems are constructed in the Asia/Pacific region. In the Middle East, predominantly ground floor mounted systems up to a maximum of 20 MWp are built, consequently significantly below sizes in the USA. In Europe, too, the tendency is more towards small systems in the 10 MWp range as well as systems for own consumption. Derived from this, the existing customer groups from the aggregated operating segments are comparable.

Processed and analyzed information is viewed by region for internal management purposes, financial information purposes as well as for other purposes, and made available to the respective addressees.

To enable the reporting in the 2016 financial year to be compared with that of the previous financial year, the presentation of the 2015 segment reporting was adapted.

Operating profit or loss is segmented on the basis of cost accounting reports.

Financial Year 2015 **k€**	**USA**	**Middle East**	**Asia/ Pacific**	**Europe**	**Holding company**	**Total**
Segment income statement						
External revenues	97,980	8,403	8,607	3,593	824	119,407
Segment profit or loss	2,193	– 38	– 1,004	596	– 3,350	– 1,603
Income from associated companies					24	24
EBIT	2,193	– 38	– 1,004	596	– 3,326	– 1,579
Financial result					– 4,367	– 4,367
Consolidated earnings (loss) before tax						– 5,946
Income taxes					317	317
Consolidated net profit/loss						**– 5,629**
– of which attributable to non-controlling interests						– 406
– of which attributable to the majority shareholders						– 5,223
Other information						
Capital expenditures	87	0	23	2	84	196
Amortization, depreciation and impairment losses	49	0	111	874	332	1,336
Non-cash expenses	751	38	39	16	286	1,130
Non-cash income	727	62	22	209	694	1,714
Assets						
Segment assets	12,742	3,102	7,330	22,241	7,641	53,057
Investments in associates					387	387
Consolidated assets	**12,742**	**3,102**	**7,330**	**22,241**	**8,028**	**53,444**

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

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

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

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

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

(34) DISCLOSURES OF TRANSACTIONS WITH RELATED PARTIES

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

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

Directors' shareholdings:

Executive Board	Number of Shares 12/31/2016	Number of Shares 12/31/2015
Tim P. Ryan	3,135	3,135
Dr. Murray Cameron (until December 31, 2016)	69,750	69,750
Manfred Hochleitner	0	0
Olaf Laber (stepped down from office on January 31, 2015)		n/a[1]
Total shares held by Executive Board members	**72,885**	**72,885**

Supervisory Board	Number of Shares 12/31/2016	Number of Shares 12/31/2015
Oliver Gosemann	25,000	20,000
Prof. Thomas Zinser	0	0
Hans-Gerd Füchtenkort (from June 23, 2015)	0	0
J. Michael Fischl (until June 23, 2015)		n/a[1]
Total shares held by Supervisory Board members	**25,000**	**20,000**

[1] Not applicable, as a reporting duty no longer exists due to the member leaving office

In connection with the Stock Option Plan 2006, the following stock options were granted to the Executive Board: in the 2007 financial year, each member of the Executive Board was granted 4,500 option rights; the fair value of an option at the time of issue was EUR 10.177. In the 2008 and 2009 financial years, each member of the Executive Board active at the time of issue was granted 9,000 further option rights; the fair value at the time of granting was EUR 20.174 or EUR 17.972 per option right. Further option rights were also granted in the 2010 financial year to members of the Executive Board active at the time of issue; the fair value at the time of granting was EUR 13.912 per option right. In the 2016 financial year, Dr. Murray Cameron still held just 35,500 stock options from the SOP 2006. Dr. Murray Cameron left the company as of the end of December 31, 2016, as a consequence of which his stock options have now lapsed.

In addition, compensation paid to the Executive and Supervisory Boards constitutes transactions with related persons. Detailed descriptions are presented in sections 41 and 42, as well as in the compensation report that forms part of the Group management report.

(35) CONTINGENT LIABILITIES

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

(36) CONTINGENT ASSETS AND LIABILITIES

A contingent liability of around EUR 1.0 million exists in connection with a tax risk relating to a VAT audit in Bulgaria (Kazanlak project). The outcome of the pending case is currently uncertain.

(37) OTHER FINANCIAL LIABILITIES

The Group had total financial commitments of kEUR 2,506 (previous year: kEUR 3,313) under various rental and lease agreements. Of this aggregate amount, the sum of kEUR 687 (previous year: kEUR 741) is due within one year, kEUR 1,273 (previous year: kEUR 1,870) has a remaining term of between one and five years, and kEUR 546 (previous year: kEUR 702) has a remaining term of more than five years.

As in the previous year, no order obligations existed for non-current assets as of the balance sheet date (previous year: kEUR 0). In addition, bill guarantee lines of EUR 28.4 million had been extended as of the balance sheet date (previous year: EUR 27.0 million).

(38) RISK MANAGEMENT SYSTEM

The Phoenix Solar Group is subject to credit, liquidity and market price risks pertaining to its assets, liabilities and planned transactions.

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

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

CURRENCY AND INTEREST RATE RISK

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

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

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

Derivatives are employed as hedging instruments to limit or eliminate such risks. The Group generally deploys forward currency transactions, swaps and currency options to hedge payments in advance that will be made or received in the following financial year. As of the December 31, 2016 reporting date, the Group reports forward currency transactions with a volume of kEUR 4,303 (previous year: kEUR 4,397).

Phoenix Solar AG is consequently exposed to market value risks from certain foreign exchange derivatives. These comprise foreign exchange derivatives that serve to hedge underlying transactions and planning positions. Exchange rate changes in the currencies underlyting such financial instruments are recognized in other operating income or expenses (measurement resulting from the adjustment of financial assets to fair value). If the euro had risen or fallen by ten percent against all currencies as of December 31, 2016, other operating income and the fair value of hedging transactions would have been kEUR 413 lower or kEUR 504 higher respectively (December 31, 2015: kEUR 178 higher or kEUR 146 lower respectively). The hypothetical earnings effect derives from the currency sensitivities of the euro to the US dollar.

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

Moreover, the company operated an interest rate management program until September 30, 2016, which had already become more important during the past financial year as a result of the variable syndicated loan financing facility. After this date, a liability discharge occurred on the part of the syndicated loan. Phoenix Solar AG is exposed to interest rate risk due to the variable interest syndicated loan. An assumed change in the interest level of + 100 basis points would lead to a deterioration of the interest result of kEUR - 357 (previous year: kEUR - 391), and a change of - 100 basis points would lead to an improvement in the interest result of kEUR 357 (previous year: kEUR 391). The company no longer held any interest rate derivatives as of December 31, 2016.

DEFAULT RISK

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

The Group is exposed to default risk primarily in connection with its trade receivables. The amounts reported on the balance sheet are presented less valuation allowances. We generally agree milestone payments for long-term construction contract projects. The related potential receivables default has been kept relatively low as a consequence.

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

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

Maximum default risk is reflected in the carrying amounts of the financial assets recognized on the balance sheet (including derivative financial instruments with positive market values).

Derivative transactions are concluded on the basis of a standardized master agreement for financial forward transactions. This master agreement does not satisfy IAS 32 offsetting criteria, as offsetting can be implemented only in the case of insolvency, or given simultaneously due payments in identical currency. Moreover, as of the reporting date, significant agreements existed that would reduce the maximum default risk (including set-off agreements, for example). Receivables under long-term construction contracts are secured by obligatory contractor's liens and standard agreed prepayments for milestones, and by standard financing commitments from customer-financing banks, bank guarantees and, where applicable, security deposits. Furthermore, standard retention-of-title arrangements apply to unpaid materials.

LIQUIDITY RISK

To avoid liquidity risk within the Phoenix Solar Group – in other words, an inability on the part of the Group to fulfill existing payment obligations with respect to the amounts and temporal structure, without restriction, and/or on time – the Group prepares a cash flow forecast on the basis of a three-year business plan approved by the management. The Group treasury function compares the expected future cash flows with the rolling weekly forecast of the Group's liquidity position. This allows financial risks to be identified at an early stage, and measures to be taken in relation to financing and investment requirements (flexible liquidity risk management).

In March 2016, Phoenix Solar AG concluded an agreement with its syndicate of financing banks, extending the existing financing facility until September 30, 2018. The new financing facility has a volume totaling around EUR 101 million, and consists of a syndicated loan of almost EUR 85.4 million, as well as other bilateral cash and bill guarantee lines. The lending agreement also includes cash lines that are reported as cash flows up to one year in the following list. The contractual regulation nevertheless makes provision for these lines prolonging automatically within the contractual term, whereby an actual cash outflow will prospectively not occur. The whole of the syndicated loan is categorized as non-current.

k€				
As of 12/31/2016	**Carrying amount/ value**	**Cash outflows up to 1 year**	**Cash outflows 1 to 5 years**	**Cash outflows than 5 years**
Non-current financial liabilities	35,285	24,787*	10,966	0
Liabilities arising from long-term construction contracts	289	289	0	0
Trade payables	17,793	17,793	0	0
Miscellaneous other financial liabilities	1,935	1,935	0	0
Derivative liabilities	0	0	0	0
As of 12/31/2015				
Non-current financial liabilities	39,059	6,200	32,859	0
Liabilities arising from long-term construction contracts	8,631	8,631	0	0
Trade payables	9,496	9,496	0	0
Miscellaneous other financial liabilities	1,045	1,045	0	0
Derivative liabilities	17	17	0	0

*The non-current financial liabilities relate to revolving credit lines existing as part of the syndicated loan agreement. The repayments of the financial liabilities existing on the reporting date occur within one year, whereby the credit lines can be drawn upon again up to the end of the contractual term.

(39) SHARE-BASED PAYMENT TRANSACTIONS

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

As part of this authorization, the Executive Board of Phoenix Solar AG set up a Stock Option Plan on September 10, 2007 (“SOP 2006” as an abbreviation for “Stock Option Plan 2006”), under which a total of 340,350 stock options of Phoenix Solar AG were granted in five tranches to members of the Executive Board, members of the management of the Group companies and other key personnel. As of the reporting date, 322,350 of those stock options had expired due to the individuals concerned having left the company, and 18,000 had been exercised in previous years. As a consequence, no options exist any longer as of the reporting date. The beneficiaries can only exercise the stock options if on the exercise date they are employed by either the company or a Group company on the basis of an employment contract that has not been terminated. As the last option beneficiary left the company as of the end of December 31, 2016, these options have now lapsed.

Exercise strategies: The strategy of earliest possible exercise was assumed for Tranches I to III. Based on experience with the initial exercise, a three-part strategy was assumed for Tranches IV and V, consequently:

1. Earliest possible exercise,
2. Earliest possible exercise after 2.5 years at the earliest,
3. Earliest possible exercise after three years. The weighting applied for determining the percentage of stock options to which each strategy is to be applied for measurement purposes is based on the experience gained, whereby 67 percent exercise according to Strategy 1, 11 percent according to Strategy 2, and 22 percent according to Strategy 3. An employee turnover rate of five percent was also taken into account.

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

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

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

	Tranche V SOP 2006 (2011)	Tranche IV SOP 2006 (2010)	Tranche III SOP 2006 (2009)	Tranche II SOP 2006 (2008)	Tranche I SOP 2006 (2007)	Total number
Position as of 01/01/2015	3,000	19,500	11,000	9,000	0	42,500
Stock options expired during the 2015 term	0	0	– 2,000	– 5,000	0	– 7,000
Position as of 12/31/2015 and 01/01/2016	**3,000**	**19,500**	**9,000**	**4,000**	**0**	**35,500**
Stock options expiring after the 2016 term	0	0	0	0	0	35,000

As in the past years, no options were exercised in 2016.

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

(40) IMPORTANT EVENTS AFTER THE REPORTING PERIOD

In March 2017, after the end of the reporting period, we acquired all of the outstanding minority interests in Phoenix Solar Pte Ltd, Singapore. These minority interests were held by a group of former managing directors of the subsidiary. We now hold 100 percent of the company after implementing this transaction.

G. SUPPLEMENTARY FURTHER DISCLOSURE REQUIREMENTS

(41) EXECUTIVE BOARD OF THE PARENT COMPANY

- Tim P. Ryan, Master of International Business (MIB), Lucerne, Switzerland, appointed until December 31, 2017, Executive Board Chairman (Chief Executive Officer/CEO); responsible for strategy and business development, America, Asia and Middle East
- Manfred Hochleitner, mathematics graduate, Munich, appointed until December 31, 2019; responsible for finance and administration (Chief Financial Officer/CFO) as well as for business development Europe
- Dr. Murray Cameron, physics graduate, Garching, appointed until December 31, 2016; responsible for business support international

Membership on Supervisory Boards within the Group and external to the Group:

- Tim P. Ryan is Chief Executive Officer and President of Phoenix Solar Inc., USA.
- Manfred Hochleitner is a Non-Executive Director on the Board of Directors of Phoenix Solar Pte. Ltd, Singapore, and also a member of the Board of Directors of Phoenix Solar Inc., USA. He is also a Supervisory Board Member of Phoenix Solar S.r.l., Rome, Italy, and Managing Director of three project companies.
- Dr. Murray Cameron was Non-Executive Chairman of the Board of Directors of Phoenix Solar Pte Ltd, Singapore. When his contract with his Executive Board responsibility expired as of December 31, 2016, he also relinquished membership of intragroup Supervisory Boards.

Expenses for current benefits for the management amounted to kEUR 703 in the 2016 financial year (previous year: kEUR 721), and to kEUR 0 for non-current benefits (previous year: kEUR 0). Compensation includes a basic monthly salary, the provision of a company car which can also be used for private purposes, and accident insurance cover primarily for accidents on the job, but also covering liability in the private sphere. Furthermore, social security contributions as prescribed by the law, minimum or fixed bonuses, and additional board and lodging costs also form part of non-performance based compensation. The CEO and CFO also receive a variable bonus if predefined targets are reached.

Dr. Murray Cameron held 35,500 stock options from the SOP 2006. The stock options could only have been exercised if Dr. Cameron had been employed by the company on the basis of an unterminated employment contract. Furthermore, the stock options could only been exercised if the share price on the exercise date had exceeded a specific share price level on at least ten consecutive trading days. Dr. Murray Cameron left the company as of the end of December 31, 2016, as a consequence of which the stock options have lapsed.

Please refer to section 12 of the management report for a detailed description of compensation components.

(42) SUPERVISORY BOARD OF THE PARENT COMPANY

- Oliver Gosemann, Managing Director of GOSFAM Investments GmbH, Forst (since June 16, 2010, Chairman since June 23, 2015). Oliver Gosemann is also a member of the Supervisory Board of Voltea B.V., Sassenheim, Netherlands.
- Prof. Thomas Zinser, Hohenschäftlarn, (Deputy Supervisory Board Chairman since June 21, 2012), tax advisor at tax, law, and management consultancy firm Ebner Stolz Mönning Bachem, and professor at Landshut University in the Faculty of Taxation, Accounting and Business Administration. Prof. Dr. Thomas Zinser currently holds no further Supervisory Board mandates.
- Hans-Gerd Füchtenkort, Rottach-Egern (appointed until June 23, 2015). Hans-Gerd Füchtenkort currently holds no other Supervisory Board mandates.

The total compensation of the Supervisory Board members in the 2016 financial year amounted to kEUR 106 (previous year: kEUR 120), and is comprised entirely of non-performance-related components.

This amount was composed as follows:

k€	Performance-based components (including ancillary benefits)		Total	
	2015	2016	2015	2016
J. Michael Fischl (until June 23, 2015)	23	0	23	0
Oliver Gosemann	44	48	44	48
Prof. Thomas Zinser	38	33	38	33
Hans-Gerd Füchtenkort (from June 23, 2015)	15	25	15	25
Total	**120**	**106**	**120**	**106**

(43) AUDITORS' FEES

The fee paid to the auditing company and expensed for 2016 is composed as follows:

k€	2016	2015
a) Audit of financial statements	175	129
b) Other certification services	0	0
c) Tax advisory services	0	3
d) Other services	0	0
Total	**175**	**132**

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

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Executive and Supervisory Boards have issued a declaration of conformity with the German Corporate Governance Code, making it permanently available to shareholders on the company's website (http://www.phoenixsolar-group.com) under the menu options of "Investor Relations" and then "Corporate Governance", "Declaration of Conformity". The disclosures relating to target setting concerning reaching the statutory ratio of women required pursuant to Section 289a (4) of the German Commercial Code (HGB) were also published.

RESPONSIBILITY STATEMENT

We assure to the best of our knowledge that, pursuant to the applicable financial accounting principles, the consolidated financial statements convey a true and fair view of the Group's financial position and performance.

H. DATE AND SIGNING OF THE CONSOLIDATED FINANCIAL STATEMENTS

Sulzemoos, March 22, 2017

Phoenix Solar Aktiengesellschaft

Tim P. Ryan
Master of International Business (MIB)
Lucerne, Switzerland
(Chief Executive Officer)

Manfred Hochleitner
Dipl.-Mathematiker
Munich
(Executive Board member)

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the Phoenix Solar AG, Sulzemoos, comprising the consolidated income statement, consolidated balance sheet, consolidated statement of changes in stockholders' equity, consolidated statement of cash flows and notes, together with the Group Management Report for the business year from January 1, 2016 to December 31, 2016. The preparation of the consolidated financial statements and the Group Management Report in accordance with the IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Article 315a Section 1 German Commercial Code are the responsibility of the Parent Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

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

Our audit has not led to any reservations.

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

We are bound by duty to point out that there are risks which endanger the existence of the company. These are detailed in section 8.7.1 "Group Financing" of the Group Management Report. There it is explained that the Company's liquidity depends on the prolongation of the syndicated loan agreement beyond September 30, 2018, and that the bank syndicate in the event of a breach of covenants will not exercise its extraordinary termination right for the credit lines or equity is made available by third parties.

Munich, March 22, 2017

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer Wirtschaftsprüfer (German Public Auditor)	ppa. Frank Thomas Buchwald Wirtschaftsprüfer (German Public Auditor)

ADDITIONAL INFORMATION

Photovoltaic glossary 152
Editorials and contact 155
Financial calendar 156
Group structure 159

PHOTOVOLTAIC GLOSSARY

- **Accumulator**

An accumulator stores electrical energy. In photovoltaic, accumulators are used for off-grid systems.

- **Alternating current**

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

- **Amorphous modules**

Modules made of amorphous silicon (a-Si) are a type of thin-film module whose cells are made of glass or metal panels coated with a thin layer of silicon. The name comes from the fact that, when the glass or metal is coated, the silicon atoms are not distributed in the crystal- line structure but are spread amorphously, i.e. at random. a-Si modules have a distinctive brown color.

- **Amortization**

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

- **Balance of system costs**

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

- **Crystalline modules**

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

- **Degradation**

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

- **Direct current**

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

- **Efficiency**

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

- **EPC**

The acronym EPC (engineering, procurement and construction) is used in power plant construction to describe a form of project implementation customary in plant construction where the contractor assumes the role of general contractor. The EPC contractor designs the plant, procures the required components and oversees the actual construction works.

- **Feed-in Tariffs (FiT)**

In a number of countries, the expansion of renewable energies is promoted through paying the system operator a fixed price for the solar electricity produced. This price is guaranteed under the law over a longer period and must be paid by the grid operator to the producer of solar electricity.

- **German Renewable Energies Act (EEG)**

The German Renewable Energies Act (EEG) entered into force on 1 April 2000. Its objective is to promote the expansion of energy produced from renewable sources. Among other things, it regulates the feeding in of renewable energies into the power grid and its remuneration. Numerous amendments in recent years have changed the remuneration mechanisms and amounts.

- **Grid-connected systems**

Grid-connected systems are solar power plants which have been connected up to the power grid and continuously feed in solar electricity.

- **Grid parity**

The grid parity of solar electricity means that the price of generating one kilowatt hour of solar electricity is no higher than the end consumer price for electricity from the mains socket. Grid parity is therefore tied to the location of consumption, as solar electricity is often generated where it is consumed. The definition of grid parity is therefore not a comparison between the production costs of solar electricity and those of energy generated from fossil-based sources.

- **Ingot**

Ingot is a term used to describe a block of semiconductor material, such as silicon. The structure of ingots can be monocrystalline or polycrystalline.

- **Inverters**

Inverters convert the direct current generated by the solar cells into alternating currents which is compatible with the grid. They are an integral component of solar power plants.

- **Kilowatt (kW)**

Kilowatt (kW) is the general unit of measurement for output. The electrical output of a solar power plant is also given in kilowatts.

- **Kilowatt hour (kWh)**

The kilowatt hour (kWh) is a unit of measurement for energy used or generated. One kilowatt hour equals a kilowatt over the period of an hour. The kilowatt hour is the unit of energy commonly used for the measurement of household electricity consumption. One kilowatt hour is sufficient to light a 100 watt bulb for ten hours.

Levelized Cost of Energy

According to the formula

$$\text{LCoE} = \frac{\text{CAPEX} + \sum^{n}{}_{t=1}\,[\text{OPEX (t)}/(1+\text{WACC}_{\text{Nom}})^{t}]}{\sum^{n}{}_{t=1}\,[\text{Utilisation x (1-Degradation)}^{t}/(1+\text{WACC}_{\text{Real}})^{t}]}$$

the calculation of total production costs mainly includes the investment, operating and capital costs, as well as amortization.

t	=	time (in years)
n	=	economic lifetime of the system (in years)
CAPEX	=	total investment expenditure of the system, made at t=0 (in €/kWp)
OPEX(t)	=	operation and maintenance expenditure in year t (in €/kWp)
WACCNom	=	nominal weighted average cost of capital (per annum)
WACCReal	=	real weighted average cost of capital (per annum)
Utilization0	=	initial annual utilization in year 0 without degradation (in kWh/kWp)
Degradation	=	annual degradation of the nominal power of the system (per annum)
WACCReal	=	(1 + WACCNom) / (1 + Inflation) – 1 (2) where Inflation is the annual inflation rate

Megawatt (MW)

A megawatt is a unit of measurement for output, and is equivalent to one million (10^6 W).

Micromorphous modules

Micromorphous modules (also known as tandem modules) combine both amorphous and microcrystalline technologies. The light spectrum absorbed is raised to the near-infrared region through an additional microcrystalline silicon layer. Micromorphous modules are therefore more efficient than amorphous modules.

Monocrystalline cells

The basic material for monocrystalline cells is ultra-pure silicon which is extracted from silicon smelt and manufactured into wafers of up to twelve centimetres in diameter. All crystal lattices are evenly distributed in monocrystalline. Monocrystalline cells are more efficient than polycrystalline cells but they are also more expensive to manufacture. They can be recognised by their characteristic graphite color.

Net metering

Term used for a model regulating the remuneration of electricity from photovoltaic facilities (< 100 kWp). The solar electricity produced is fed into the grid via a bidirectional meter and offset against electricity procured.

Nominal output

The nominal output (also known as peak output) is an indication of the output of a solar module or a solar plant, for instance.

Off-grid system

Off-grid systems (also known as stand-alone systems) are photovoltaic systems which are operated independently of the grid and which generate a self-sufficient supply of electricity. With these systems, the electricity produced is not fed into the grid but stored in accumulators where it can be sourced for consumption. Off-grid systems are particularly suitable for remote locations in regions with small or unstable grids where linking up to the grid would not be commercially viable.

Operation

Along with configuration and system integration, the commercial and technical operation of solar power plants are key factors influencing the yield and therefore the return. Core tasks are to secure steady-state optimal operation, the monitoring and reporting of yield data, as well as compliance with the statutory provisions and periodic inspections.

Peak power output (peak output)

The maximum power output possible from a solar module or power system under standard test conditions (STC) is defined as the peak power output (also known as peak power). It is measured in watt (W) and stated as watt peak (Wp).

Photovoltaic

Photovoltaic is defined as the environmentally compatible generating of electricity through tapping the sun's energy. In this process, solar cells linked up to one another in solar modules convert the sun's light into electrical direct current.

Polycristalline cells

The basic material for polycrystalline (also known as multi-crystalline) cells is ultra-pure silicon. Liquid silicon for polycrystalline cells is first cast as ingots and then cut into thin wafers which are 0.2 to 0.4 millimeters thick. The cells that result from this process are made up of many small single crystals, so-called crystallites, which are separated by grain boundaries The pattern which results from the composition of different crystals is unmistakable, as is the blueish color.

Power Purchase Agreement

A power purchase agreement (also known as a power delivery agreement) regulates business relations between the power supplier and the consumer. Instead of feeding electricity into the grid against remuneration, operators of solar power plants can sell electricity to customers, including companies or whole industrial zones which can considerably lower their energy costs in this way.

Power Wheeling

This system that is statutorily anchored in Jordan allows an operator to produce solar electricity at one point of the grid and feed it into the grid. For this, the operator receives the right to purchase an equal volume of electricity at other points of the grid at a beneficial price. This regulation is particularly attractive for entities operating branch networks such as banks, which in this way can sustainably reduce their energy costs and CO_2 emissions.

- **Renewable energies**

Renewable energies (also known as regenerative energies) come from a source which either renews itself in the short term or where its use does not contribute to exhausting the respective resource. This includes solar irradiation, hydropower, geothermal energy and the potential in the energy recoverable from tidal power or biomass. The share of renewable energy sources in Germany's electricity consumption is now higher than 20 percent. The use of solar power through photovoltaic has recorded high growth rates in renewable energies in recent years.

- **Self-consumption**

Alongside feeding into the public grid, electricity generated by a photovoltaic system can be used for personal consumption. The lower the feed-in tariff and the greater the cost advantage of generating solar electricity compared with using conventional energy, the more attractive self-consumption becomes.

- **Solar modules**

A solar module is made up of the number of solar cells which are electrically connected in series and which, after application of current connectors, are processed to form a module. The generally square solar cells are applied to a substrate, covered by a glass plate and laminated to protect them against weather exposure. A frame is often attached for the purpose of simplifying assembly. Solar modules customary in the market are generally made from mono- or polycrystalline solar cells or thin-film modules.

- **Solar silicon**

Solar silicon (also known as polysilicon) is the basic material used in the production of crystalline solar modules. The production of solar cells necessitates silicon in an ultra-pure state (solar grade).

- **Solar cells**

A solar module is made up of several solar cells which are connected to one another. Solar cells when exposed to light release positive and negative charge carriers (photovoltaic effect), which generates direct current. In the production of a solar cell, wafers from the semi-conducting material silicon are doped (impurity doping). When two semiconductor layers with different impurities are put together, a so-called p-n junction is generated between the layers. An electric field is generated at this junction which separates the charge carriers released by photons. Voltage is tapped through the contacts on the front and back. An anti-reflex layer protects the cell and reduces reflection losses at the surface of the cell. A differentiation is made between the different types of cells and modules.

- **Standard Test Conditions (STC)**

The specific data of a solar module are measured under standard test conditions. Standard test conditions are defined as the solar irradiation of one kilowatt (kW) per square metre, a module temperature of 25° C and a solar irradiation angle of 45°.

- **String**

A string is the parallel wiring of a number of solar modules connected up electrically in a series.

- **System costs**

The system costs of a photovoltaic plant are a key factor for determining the investment costs and therefore the length of the period of amortization. They are made up of the costs of all technical components (solar modules, installation system, direct current master switch, inverters, cabling and electricity meters) and of the work performed (development, planning, building, and over etc.). Financing costs, costs of official approvals, expert opinions, legal advice and similar services are not part of the system costs.

- **System integration**

The efficiency of a photovoltaic system depends to a great extent on the ideal interaction of all the individual components. The more technologies and products offered for selection in the market, the greater the optimisation potential through consistent system integration. The tasks of system integration include the selection and checking of the individual components, as well as the reconciliation of all details in accordance with requirements, for example the installation system, taking account of local conditions on the respective sites.

- **Temperature coefficient**

The temperature coefficient is an indication of the degree to which module output changes if the temperature of the solar cell rises.

- **Total production costs**

see Levelized Cost of Energy

- **Turnkey power plant**

In photovoltaic, a turnkey power plant is a fully configured solar power plant consisting of solar modules, a mounting system, inverters and cabling.

- **Value chain**

The value chain is the whole mix of products and services which go to make up one product (solar power plant, for instance) or a service (such as system integration or operation), comprising all links in the chain, in other words from the suppliers of raw materials and manufacturers, across system integrators, wholesalers and retailers through to the end customer.

- **Wafer**

Wafers are round or rectangular silicon slices which are approximately 0.2 to 0.4 millimetres thick. In photovoltaic, they are the primary product used in crystalline solar cells.

EDITORIALS AND CONTACT

PUBLISHER

Phoenix Solar AG
Hirschbergstraße 4
85254 Sulzemoos
Germany

www.phoenixsolar-group.com

INVESTOR RELATIONS

Dr. Joachim Fleïng
Phone +49 (0)8135 938-315
Fax +49 (0)8135 938-429
Email j.fleing@phoenixsolar.de

CREATION

„feel free!“ Weber & Kudla GbR – Friedberg/Hessen

PHOTOGRAPHY

Title: Phoenix Solar AG © 2017
Pictures page 10/11: Marc Oeder, Munich © 2017

PRINT

www.viaprinto.de
This report is printed on paper that carry the seal of the Forest Stewardship Council (FSC).

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements on future developments which are based on management's current assessments. Words such as “anticipate”, “assume”, “believe”, “estimate”, “expect”, “intend”, “can/could”, “plan”, “project”, “forecast”, “should” and similar terms are indicative of such forward-looking statements. Such statements ars subject to certain risks and uncertainties, which are mainly outside the sphere of influence of Phoenix Solar AG, but which have an impact on the business activities, the success, the business strategy and the result. These risks and factors of uncertainty include, for instance, climatic changes, changes in the state subsidisation of photovoltaic, the introduction of competitor products or technologies of other companies, the dependency on suppliers and the price development of solar modules, the development of the planned internationalisation of business activities, fierce competition and rapid technology change in the photovoltaic market. If one of these or other factors of uncertainty or risks should occur, or if the assumptions underlying the statements should prove incorrect, the actual results may diverge substantially from the results in these statements or implicit indications. Phoenix Solar AG does not have the intention, nor will it undertake any obligation to update forward-looking statements on an on-going basis or at a later point in time, as this is entirely dependent on circumstances prevailing on the day of their release.

FINANCIAL CALENDAR

March 31, 2017	Annual Report as per December 31, 2016
May 11, 2017	Report/Interim Figures as per March 31, 2017
June 20, 2017	Ordinary Annual General Meeting of Shareholders
August 10, 2017	Report/Interim Figures as per June 30, 2017
November 9, 2017	Report/Interim Figures as per September 30, 2017

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

This report is also available in German. Both versions are available for download on the internet.
This is an English translation of the German original. Only the German version is binding.

This page is intentionally left blank.

This page is intentionally left blank.

GROUP STRUCTURE

Group structure as at 12/31/2016

Phoenix Solar AG

Sulzemoos, Germany

SUBSIDIARIES

Share	Company
100 %	**Phoenix Solar S.L.** Madrid, Spain
100 %	**Phoenix Solar M.E.P.E.** Athens, Greece
100 %	**Phoenix Solar SAS** Lyon, France
100 %	**Phoenix Solar Overseas GmbH** Sulzemoos, Germany
100 %	**Phoenix Solar America GmbH** Sulzemoos, Germany
100 %	**Phoenix Solar Inc.** San Ramon, USA
100 %	**Phoenix Solar Yenilenebilir Enerji A.Ş.,** Ankara, Turkey
75 %	**Phoenix Solar Pte Ltd.** Singapore, Singapore
75 %	**Phoenix Solar Sdn Bhd** Kuala Lumpur, Malaysia
75 %	**Phoenix Solar Philippines Inc.** Manila, Philippines
70 %	**Phoenix Solar L.L.C.** Muscat, Oman
100 %	**Phoenix Solar Fonds Verwaltung GmbH** Sulzemoos, Germany

OTHER HOLDINGS

Share	Company
100 %	**10 special purpose entities** (see Notes A.)
31.2 %	**Phoenix SonnenFonds GmbH & Co. KG B1** Sulzemoos, Germany

Excellence in Global Solar PV Solutions

Phoenix Solar AG
Hirschbergstraße 4
85254 Sulzemoos, Germany
Phone +49 (0)8135 938-000
Fax +49 (0)8135 938-429
Email contact@phoenixsolar.com

www.phoenixsolar-group.com