



Interim Report  
January – June

2006

# Interim Report

## January – June 2006

### Phönix SonnenStrom AG at a glance

Consolidated Financial Statements as of 30 June 2006 pursuant to IFRS

Reporting date		1 January – 30 June 2006	1 January – 30 June 2005
<b>Balance sheet</b>			
Total assets	T€	39,684	36,331
Equity	T€	23,437	23,244
Equity ratio	%	59.06	63.98
Return on equity	%	0.82	7.80
<b>Results</b>			
Sales	T€	27,441	30,745
Total sales	T€	36,733	43,874
EBIT	T€	281	2,802
EBIT margin	%	0.76	6.39
Net profit for the period	T€	192	1,812
Earnings per share*	€	0.03	0.35
<b>Employees</b>			
Employees**	number	86	71
Sales per capita***	T€	344	627
<b>Phönix SonnenAktie®</b>			
No-par-value bearer shares		5,525,000	5,525,000
Computed share in share capital	€	1.00	1.00
Closing price 30 June	€	23.26	11.35
Market capitalisation	T€	128,512	62,709

\* undiluted and diluted earnings

\*\* average employee number, including part-time and temporary staff

\*\*\* Full-time equivalent

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

## Dear Shareholders,

It may sound strange to those of you who have had close ties with Phönix SonnenStrom for a long time but the Interim Report you are holding contains the figures of an international company! Having announced our participation in the Italian company RED 2002 in our 2005 Annual Report, we founded a subsidiary in Spain in April of this year. In the long term, however, there are two other milestones which are more important: We have successfully changed our accounting system to comply with the International Financial Reporting Standards (IFRS), and we have been admitted to trading on the official market (Prime Standard) of the Frankfurt Stock Exchange. Although these measures incurred high one-off costs which burden our result, we are now internationally aligned with the capital market and have thus set in place the prerequisites for our future growth. IFRS has served to enhance our transparency, a step which is likely to have won your approval already.

Recent events have again clearly illustrated how urgent it is to expand solar electricity. This summer we are feeling the effects of climate change, too. This is compounded by a growing number of crisis regions, accompanied by climbing oil prices. In addition, there are sound economic advantages in favour of having an energy supply sourced from renewable energies. A topical study conducted by the German Aerospace Centre has investigated the external costs of producing energy through conventional power plants and renewable energies and has come to the conclusion that the cost savings for the general public anchored in the German Renewable Energy Act (EEG) actually exceed state subsidies. EEG funding not only helps to build up a reliable, long-term source of energy – but this is energy that makes economic sense here and now. Besides, if one takes into account that there are more than 45,000 people employed in the solar sector alone, this is more than just mere theory.

This insight is reflected in the improved general conditions, for instance, in Greece and France. In Germany, demand slowed in the first half-year, dampened by relatively high prices. Following a price decline defined by the Renewable Energy Act, we see a clear recovery in the market. What is particularly pleasing here is the trend in power plant construction. An order placed for a solar electricity power plant in Spain is confirmation of the Phönix Group's outstanding position in this business. To ensure that we are well equipped for the trend towards large-scale photovoltaic plants, we have concluded a long-term framework agreement for thin film modules with First Solar. Even if our 5.3 MWp Miegersbach Solar Park already ranks among the world's largest solar electricity plants, we think there is still by far and away not enough solar electricity.

With summer regards,



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



M. Bächler  
(Chief Technology Officer)



Dr. M. Cameron  
(Chief Operating Officer)

# Business Development

## 1. GENERAL CONDITIONS

### 1.1 General conditions in Germany and the EU

As laid down in the German Renewable Energy Act (Erneuerbare Energien Gesetz (EEG)), the tariffs for feeding electricity into the grid were reduced on 1 January of this year, by 5 percent for building-mounted photovoltaic systems and by 6.5 percent for green-field plants. The aim of the curtailing "feed-in" tariffs on an annual basis is to reach a status within a few years whereby solar electricity systems in Germany will have become commercially viable and operate independently without any market incentive programmes. We welcome this development which underpins the commercial viability of photovoltaic systems and thus serves to bolster a stable market with self-generating growth in Germany.

In the first half of 2006, Spain and Italy were Europe's most important markets outside of Germany. General conditions in Spain remained virtually unchanged during this period. In Italy, huge demand resulted in the annual subsidising of photovoltaic systems being capped, starting with the year 2006, to a total peak power output of 85 megawatt (MWp) per year. Of this amount, 60 MWp is accounted for by plants with a peak power output of less than 50 kilowatt (kWp) and 25 MWp by more powerful plants. Accordingly, the annual growth of the Italian photovoltaic market is limited. The disadvantage formerly associated with thin film technology was dispelled by a ministerial order issued on 6 February 2006. This is a very positive development for Phönix SonnenStrom, as our long-standing expertise in thin film technology in general and in plant construction in particular can come into its own in Italy as well.

Greece is another country which has also taken important steps towards introducing a programme to subsidise investment in photovoltaics. At the start of June 2006, the Greek parliament passed long-awaited new legislation on bringing grid-connected photovoltaic systems to the market. The first applications for photovoltaic systems have already been submitted.

In France, the feed-in tariff was doubled to 30.5 cents with effect from June. As a flanking measure alongside the feed-in tariff, photovoltaic systems are promoted by way of tax relief. The conditions governing the feed-in tariff are valid for both private and commercial investors and for systems of all types.

### 1.2 Sales market /demand in Germany and the EU

The German market is now showing signs of normalising, having been characterised by demand which outstripped supply in 2004 and 2005, and absorbing modules in just about any volume and any quality. Customers have become more price and quality aware. Owing to the long winter, demand declined in the first half of 2006. Consequently, the price of solar modules has fallen by around five percent, thus within the range prescribed by the German Renewable Energy Act. We estimate that module and

system prices will fall by five percent a year in subsequent years as well. The political aim of enabling photovoltaic systems to become commercially viable with the help of the Renewable Energy Act has thus been taken account of.

The demand for photovoltaic systems in Italy has only reached a sustainably high level since the introduction of the new feed-in tariff in July 2005. All in all, applications for photovoltaic systems with a total output of more than 1,500 MWp have been made since September 2005. Of this volume, around 380 MWp were approved. The large difference is above all attributable to the restriction imposed on the market of 85 MWp per year. Output actually installed is slower due to the extensive and laborious process involved in obtaining official approval.

In Spain, the development of the photovoltaic market is still upbeat. Following 17 MWp in the year 2005, the APPA (Asociación de productores de energías renovables, or the Spanish Association for the Renewable Energy Producers) estimates the market size at between 25 and 30 MWp in 2006. As before "Huerta Solares", or solar parks, of several 100 kWp ranging up to a several MWps, dominate the market.

In Austria and Switzerland, the markets stagnated in the first half year of 2006. The legislators in these countries are faced with the decision of whether to follow the example of the German Renewable Energy Law. At present, demand is for individual projects, which does not secure consistent growth.

The Luxembourg market has more or less come to a standstill, as conditions deteriorated considerably in the wake of the new legislation on feed-in tariffs. The market is only expected to recover if there is a change in the framework conditions. The same applies to The Netherlands.

Belgium, and Flanders in particular, has set in place good prerequisites through new legislation on feed-in tariffs which will encourage the market to grow consistently. We are in contact with the leading local suppliers and intend to expand our commitment.

## 2. BUSINESS PERFORMANCE

### 2.1 General trend

In the period under review, orders on hand in Germany and abroad developed especially well, soaring by more than 430 percent to € 41.0, up from € 7.7 million at the end of the second quarter of 2005. This is primarily attributable to the development of the power plant business where the company acquired a number of large-scale projects which are to be realised by the end of this year. These projects include several green-field plants with thin-film modules.

The business trend in the first quarter was affected by the long, snowy winter in Germany and Europe which had a direct impact on the second quarter. Whereas construction work on power plant projects could start in February/March of 2005,



commencement was delayed in 2006 until April. Due to the weather, demand for components and systems set in at a later date than in previous years.

Total sales in the reporting period came to € 36.7 million as compared with € 43.9 million in the first half of 2005, which is 16.4 percent lower year on year. Factors influencing the sales trend were the delay in the start of construction work on power plant projects due to the long winter and the persistent shortage of solar modules in the sector. Above all, the availability of modules had an impact on the national and international distribution business of the Components & Systems segment. Moreover, there is a trend emerging in which customers tend to source when they have an immediate need. The extraordinary increase in the order level suggests, however, that the delay in construction due to weather conditions and the later sourcing of components will not have a long-term negative effect on the sales trend.

In the first six months of the financial year 2006, the whole international business of the Phönix Group generated sales of around € 3.0 million, which corresponds to a share of 10.8 percent in consolidated sales. In the first half of 2005, this figure was still only 5 percent. Up until now, sales from international business have come exclusively from the Components & Systems segment. In international power plant construction, however, the first order from Spain, worth around € 6.7 million, has been given. Other projects are at the planning stage. By the end of 2006, we expect international business to make up 10 percent of total sales.

## 2.2 Earnings, financial position, and net worth

As regards investments in associated companies, there has been an increase of around T€ 486 as against 31 December 2005, explained by the purchase of the 49-percent stake in the Italian systems integrator company Renewable Energies Development 2002 S.r.l. (RED 2002), headquartered in Rome, on 1 January 2006.

Advance payments of T€ 11,320 were remitted to module suppliers and sub-contractors of power plant projects currently under construction.

The level of inventory rose substantially as against the previous year, the main cause being the stock building of solar modules for power plants which will be deployed in the third and the fourth quarter. Around 80 percent of the solar modules forming part of inventories on 30 June have been already reserved for power plant projects commissioned.

Owing to the afore-mentioned capital commitment in inventory as well as advance payments to be made, current account facilities were utilised in the amount of T€ 2,461, which explains the increase in short-term financial liabilities.

As against 31 December 2005, the equity ratio decreased from 64 percent to 59.06 percent.

Earnings before interest and tax fell in comparison to the year-earlier figure, from T€ 2,802 to T€ 281. The main factors influencing the result were the costs incurred for switching stock exchange segments, the start-up costs for international business,

higher costs incurred by adopting IFRS, also for the annual financial statements, as well as hiring the new staff necessary to implement the Group's strategy on an ongoing basis.

Cash flow from operating activities fell to T€ – 21,096, down from T€ 232 in 2005, the main cause being the high accumulation of capital needed for advance payments and inventories.

### 2.3 Other events

In addition, the first half-year was marked by the development of the company on the stock exchange. The switch to the official market (Prime Standard) was the logical consequence of the growth strategy through which, with the expansion of its operating business, the Phönix Group is positioning itself in the international arena in relation to the financial markets. An associated measure was to have the annual financial statements drawn up for the first time on the basis of the International Financial Reporting Standards (IFRS) at Group level.

## 3. SEGMENTS

### 3.1 Components & Systems (domestic and international)

Sales in the Components & Systems segment in Germany came in at € 24.4 million in the period from 1 January to 30 June, which corresponds to a decline of € 4.08 million, in comparison with the year-earlier period. Despite the generally slack demand in the German market, Phönix SonnenStrom would have been able to generate considerably higher sales in the Component & Systems segment. The sales structures built up in the preceding years and reliable partnerships were factors which would have permitted a higher level of sales. The persistent shortage of solar modules prevented sales being brisker in our company. The gross margins attained in this segment were slightly above budget.

In the course of the first half-year, the responsibility for the international markets in Italy and Spain were assigned respectively to the Italian company RED 2002 and to the Group's Spanish subsidiary, Phoenix Energía Solar. All in all, the Components & Systems segment generated a share of 74.7 percent in total group sales.

### 3.2 Power plants (domestic and international)

In the first six months of 2006, two megawatt ground-mounted power plants were constructed, along with a number of small to medium-size roof-mounted systems. A photovoltaic system with a peak power output of 809 kilowatt in Laudenbach near Würzburg was the first example of a plant constructed using the thin film modules of First Solar with a system voltage of up to 1,000 volt. This served to slash the costs while using the

same direct current wiring and inverters. The municipality of Haimhausen in the District of Dachau has set up its own operations to manage a power plant of 1.1 MWp, an entity which is at the same time the owner and operator of the facilities. The project was developed by our subsidiary Phönix Projekt & Service AG and realised by Phönix SonnenStrom AG.

The Power Plant segment generated sales of € 9.29 million in Germany as compared with € 13.13 million in the previous year's period. Sales achieved up until now make up around 20 percent of the annual target of the Power Plant segment. The remaining 80 percent will be realised in the second half of the year. The reasons for the way sales are spread throughout the year were explained above.



Laudenschbach Solar Park, 809 kWp

The first major international contract for the construction of a power plant using thin film modules was acquired in Spain in the first half of the year. The construction of the plant in the environs of Toledo, with a total output of 1.4 MWp and an order volume of € 6.7 million, is to be carried out in the fourth quarter of 2006. We expect it to become operational in the current financial year.

A number of other international projects are at the preparatory stage, in cooperation with our subsidiaries. At present, the company is developing a 6.3 MWp project in Spain, the planning of which is to be concluded by the end of 2006. The construction of the plant is to be carried out in the coming year. The upfront costs incurred by the project development have placed a not insignificant burden on profit in the first half of 2006.

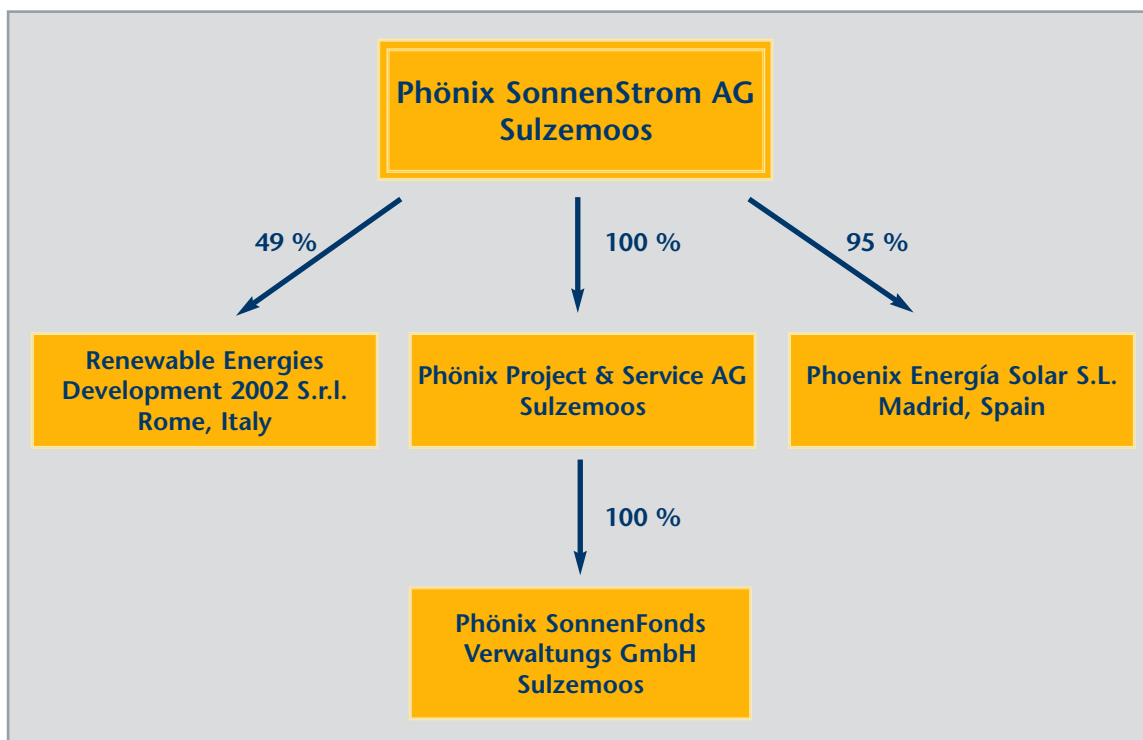
The building up of a control centre (power plant maintenance), a 7-day/24-hour service to deliver professional operation and maintenance of photovoltaic power plants was on track. The inauguration ceremony was in July, together with customers and partners, in our Ulm offices. The offering is directed primarily at owners and operators of power plants who would require a swift reaction to operational failure. The first customer power

plants are already being monitored by power plant maintenance. The intention is to have linked up power plants with a total output of between 10 and 15 MWp by the end of the year.

#### 4. GROUP COMPANIES

As part of the company's international expansion, Phönix SonnenStrom has held a 49 percent stake in the Italian systems supplier Renewable Energies Development 2002 S.r.l. (RED 2002) since January 2006. As from 1 January 2008, the company has the option of increasing its participation to up to 75 percent. With its experienced management, RED 2002 is an excellent partner in our drive to swiftly expand our activities in both segments in the Italian market. RED 2002, which already has a personnel and logistics structure in place, delivered excellent results in the first half of 2006: total operating performance is T€ 498, with EBIT posting T€ 52.

To cover the Spanish market, we founded Phoenix Energía Solar S.L., with headquarters in Madrid, in April 2006. We hold a stake of 95 percent in the company. Francisco Conesa Cervantes, the company's managing director, is a very experienced manager with in-depth knowledge of the sector who has spent many years building up business relations in Spain and Portugal. Phoenix Energía Solar also generated a positive semi-annual result.



## 5. PROCURMENT AND PURCHASING

Over the period from January to June 2006, Phönix SonnenStrom extended its portfolio considerably to include new module suppliers. We now have Tianwei Yingli New Energy Resources and Changzhou Trina Solar Energy in China to add to our suppliers. Yingli is to supply us a fixed volume in the current financial year and, in addition to this, we have signed a letter of intent on the delivery of an additional volume of 143 MWp worth of polycrystalline modules over the period up to 2010.

On 30 March 2006, the company signed a long-term framework agreement with First Solar GmbH, a subsidiary based in Mainz of the US manufacturer First Solar LLC, Phoenix, Arizona, on the delivery of thin film modules of at least 158 MWp up until the year 2011. The delivery volume can be raised by way of options to up to 265 MWp until the year 2012. This is the largest module delivery contract which Phönix SonnenStrom AG has concluded to date and is a cornerstone for the future growth of the company.

In the first six months of 2006, around a third of the volume of solar modules expected for the year as a whole was delivered. This includes modules for the Power Plant segment which will be used in the third and fourth quarter. The share of thin film modules came to 40 percent. We have also had success in our efforts to build strong partnerships with our suppliers which has resulted in greater delivery reliability. The volume delivered was a mere 4 percent below the scheduled volume.

## 6. RESEARCH AND DEVELOPMENT

In the first half of 2006, Tecto-Sun and Tecto-Sun Plus, our assembly systems developed and implemented in 2005 for slanting-roof solar electricity systems, were certified by TÜV Rheinland (German technical inspection authority).

Stepping up cooperation with our current suppliers and the qualifying of new suppliers in the area of system technology, particularly in substructure and direct current wiring, helped to enhance and modify products, which has, in turn, delivered considerable cost cutting potential in power plant construction, especially when using thin film modules.

Dialogue with international module manufacturers has been intensified. In the cooperation with our centralised Procurement & Purchasing department and our suppliers, as well as in the selection of new module suppliers, we pursue the goal of not only enhancing the product but also reducing costs at the systems level by involving all parties in the design of modules at an early stage.



## 7. SUPPLEMENTARY REPORT

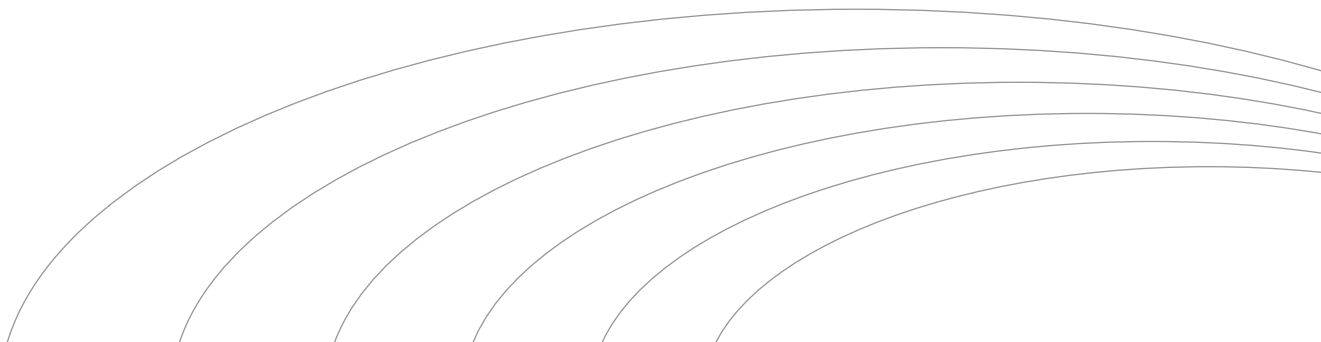
On 1 July 2007, Darren Thompson took up his position as head of Marketing and of Customer Services. Thompson came to Phönix SonnenStrom AG from the solar segment of a large, international energy utility company. Part of his tasks include the positioning of the Phönix brand in Germany and abroad.

At the start of the second half of the year, business relations were initiated with the module manufacturers MSK and Mitsubishi Electric in Japan. Phönix SonnenStrom AG thus has supply relations with a total of nine module suppliers.

## 8. FORECAST

In the year 2006 as well, the main portion of the sales of the Power Plant segment will be generated in the second half of the year. Going by construction contracts which have been concluded, including follow-up orders from investor companies, we estimate that our total operating performance will be around € 50 million by year-end, which corresponds to an increase of approximately 30 percent in the Power Plant segment over the previous year's figure.

Since July 2006, we have been seeing the German market recover. This, coupled with the module deliveries expected in the second half of the year and the outstanding order level, led the Board of Directors to confirm its sales forecast of € 140 million and a higher EBIT net of special effects than in previous years for the financial year 2006 as a whole.



# PHÖNIX SonnenAktie®

## Share performance

In the first half of 2006, the PHÖNIX SonnenAktie® (the share of Phönix SonnenStrom AG) maintained its upbeat performance. By 30 June, the share price had climbed to € 23.26, up 47.4 percent from € 15.78 at the start of the year. The share peaked at € 29.54 on 10 May following a international road show in Zurich, Amsterdam and London.

The beginning of May saw stock market share prices tumble in Germany. By 30 June, the DAX, Germany's leading index, had fallen nearly 850 points to 5,683 points, which is a decline of 14 percent, and Germany's technology index, the TecDAX, had lost as much as 22 percent, reaching its lowest level of 588.38 points on 14 June. The general reticence on the part of investors also caused the PHÖNIX SonnenAktie® (share) to fall to € 18.50 on 8 June. By the end of the first six months, however, the share price had rallied again to € 23.26.

## Change of segment



The shares of Phönix SonnenStrom AG have been traded in the official market of the Frankfurt Stock Exchange since 27 June 2006. On 26 June 2006, all 5,525,000 shares of Phönix SonnenStrom AG were admitted to this stock exchange segment and, at the same time, to Prime Standard, a sub-segment of the official market which entails additional follow-up obligations. The Board of Directors drew up a resolution on this change of segment on 9 June. The securities prospectus on the change of segment has been posted on the company's web site or can be obtained in print directly from the company.

## Shareholder structure

The share capital comes to € 5,525,000. In the first half of 2006, there were no changes in the share capital. Members of the Board of Directors and the Supervisory Board hold around 9 percent of the shares in total. Following the switch to the official market, we received notification pursuant to Sections 21 et seq. of the German Securities Trading Act (WpHG). On 26 June 2006, the date when the shares were first admitted to an organised market, Frankfurt-based DWS Investment GmbH held 5.01 percent of the voting rights.

**KEY DATA**

of the PHÖNIX SonnenAktie® (share)

International security code no. (ISIN)	DE000A0BVU93
SE code	PS4
Class of shares	No-par-value bearer share
Number of shares	5,525,000
Share capital	€ 5,525,000
Stock exchange segment	Official market / prime standard
Stock exchanges	Frankfurt am Main (prime standard), Munich (M:access), Stuttgart, Berlin / Bremen, Düsseldorf, XETRA
Sector	Industrial, renewable energies

**KEY FINANCIAL DATA**

PHÖNIX SonnenAktie® (share)

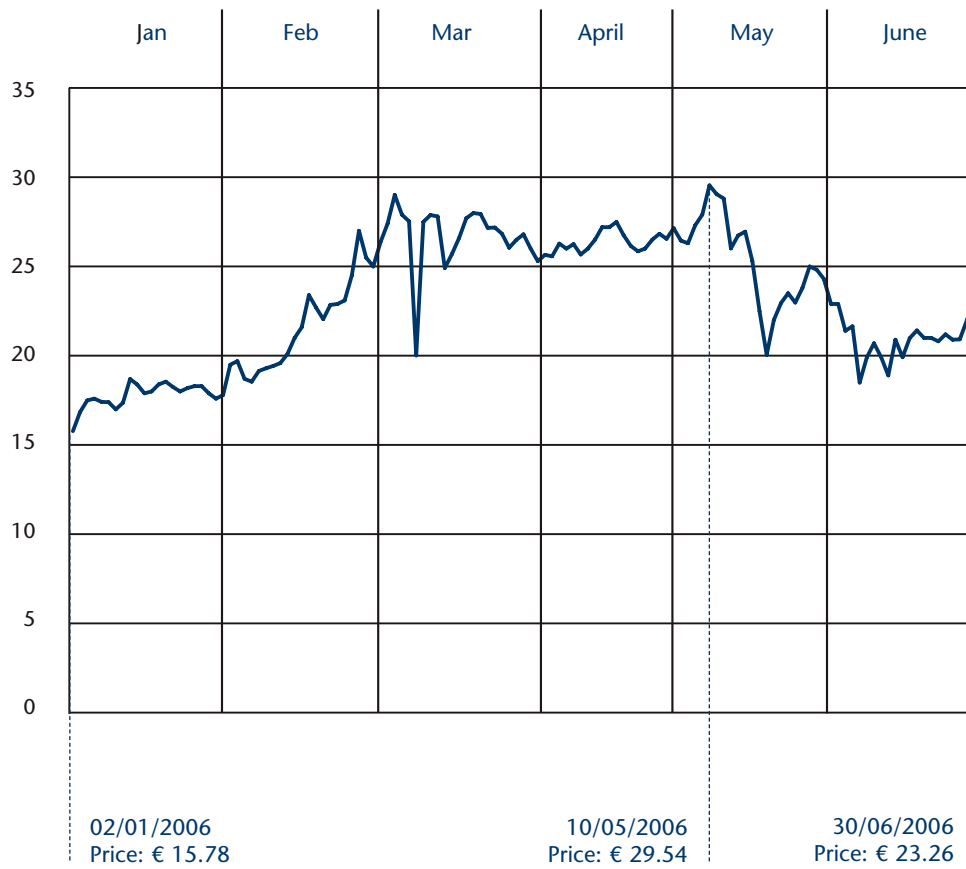
02/01/2006	Daily closing price*	€ 15.78
	Market capitalisation	€ 87,184,500
30/06/2006	Daily closing price*	€ 23.26
	Market capitalisation	€ 128,511,500
01/01/ – 30/06/2006	High / low*	€ 29.54 / € 15.78
	Earnings per share	€ 0.03

\* share price on XETRA®

**PRICE PERFORMANCE FROM JANUARY TO JUNE 2006**

of the PHÖNIX SonnenAktie® (share) in €  
on XETRA®

Interval: 1 day



# Consolidated Income Statement

for the period from 1 January 2006 to 30 June 2006 pursuant to IFRS

	01/01/ – 30/06/ 2006 in €	01/01/ – 30/06/ 2005 in €	01/04/ – 30/06/ 2006 in €	01/04/ – 30/06/ 2005 in €
Sales revenue	27,441,133.04	30,744,609.21	12,507,669.73	18,342,661.74
Sales revenue from long-term construction contracts	9,292,092.03	13,129,602.86	8,931,463.43	10,318,797.28
<b>Total operating performance</b>	<b>36,733,225.07</b>	<b>43,874,212.07</b>	<b>21,439,133.16</b>	<b>28,661,459.02</b>
Other operating income	555,907.10	350,694.95	360,488.89	318,760.97
Cost of materials	31,125,592.05	37,371,300.94	18,367,363.21	24,543,375.01
Personnel expenses	2,354,491.10	1,722,556.09	1,337,584.01	889,269.89
Depreciation and amortisation	122,833.07	125,126.11	47,119.98	63,463.00
Other operating expenses	3,438,316.08	2,212,869.28	1,926,445.01	1,502,482.27
<b>Operating result</b>	<b>247,899.87</b>	<b>2,793,054.60</b>	<b>121,109.84</b>	<b>1,981,629.82</b>
Result of associated companies	33,003.63	8,746.48	37,842.16	7,847.66
Financial result	180,699.83	- 1,848.39	106,551.83	- 28,036.44
<b>Consolidated net income before tax</b>	<b>461,603.33</b>	<b>2,799,952.69</b>	<b>265,503.83</b>	<b>1,961,441.04</b>
Income tax	268,558.48	987,659.38	178,523.17	685,531.06
<b>Result net of minority interest</b>	<b>193,044.85</b>	<b>1,812,293.31</b>	<b>86,980.66</b>	<b>1,275,909.98</b>
Share of profit due to minority interest	686.91	-	686.91	-
<b>Consolidated net income for the period</b>	<b>192,357.94</b>	<b>1,812,293.31</b>	<b>86,293.75</b>	<b>1,275,909.98</b>
Profit /loss carryforward	2,419,221.98	- 2,530,747.72	2,525,286.17	- 1,994,364.39
<b>Consolidated balance sheet profit /loss</b>	<b>2,611,579.92</b>	<b>- 718,454.41</b>	<b>2,611,579.92</b>	<b>- 718,454.41</b>
<b>Earnings per share</b>				
Average outstanding shares in units	5,525,000	5,218,370	5,525,000	5,409,615
Undiluted and diluted earnings per share in €	0.03	0.35	0.02	0.24

# Consolidated Balance Sheet

as at 30 June 2006 pursuant to IFRS

<b>Assets</b>	<b>30/06/2006</b> in €	<b>31/12/2005</b> in €
<b>Fixed assets</b>		
Intangible assets	352,105.75	362,536.79
Goodwill	278,123.65	272,383.74
Property, plant and equipment	785,401.00	511,502.54
Investments in associated companies	999,695.40	514,032.74
Other participations	13,600.00	13,666.63
Long-term receivables	450,000.00	450,000.00
Deferred tax assets	434,474.00	4,667.34
Other assets	62,250.23	45,616.48
<b>Total fixed assets</b>	<b>3,375,650.03</b>	<b>2,174,406.26</b>
<b>Current assets</b>		
Inventories	14,610,980.68	3,834,487.02
Prepayments	11,320,014.59	–
Receivables from long-term construction contracts	3,630,703.09	7,496,062.74
Accounts receivable	1,730,089.31	–
Other financial assets	3,437,471.75	2,757,133.57
Prepaid expenses in connection with capital increase	419,329.16	–
Tax assets	382,487.58	–
Cash and cash equivalents	777,633.68	20,069,395.51
<b>Total current assets</b>	<b>36,308,709.84</b>	<b>34,157,078.84</b>
<b>Total assets</b>	<b>39,684,359.87</b>	<b>36,331,485.10</b>

<b>Shareholders' equity &amp; liabilities</b>	<b>30/06/2006</b>	<b>31/12/2005</b>
	<b>in €</b>	<b>in €</b>
<b>Equity</b>		
Subscribed capital	5,525,000.00	5,525,000.00
Capital reserve	13,731,333.02	13,731,333.02
Retained earnings	1,568,266.79	1,568,266.79
Balance sheet profit	2,611,579.92	2,419,221.98
Minority interest	1,186.91	–
<b>Total equity</b>	<b>23,437,366.64</b>	<b>23,243,821.79</b>
<b>Long-term liabilities and provisions</b>		
Long-term financial liabilities	138,324.85	166,562.81
Long-term provisions	216,304.99	252,505.60
Deferred tax liabilities	664,680.38	26,799.00
<b>Total long-term liabilities and provisions</b>	<b>1,019,310.22</b>	<b>445,867.41</b>
<b>Current liabilities and provisions</b>		
Current financial liabilities	2,611,640.65	54,567.94
Liabilities from long-term construction contracts	–	–
Trade payables	8,819,479.12	7,012,011.04
Due to associated companies	32,838.58	–
Other financial liabilities	579,498.85	742,597.58
Other non-financial liabilities	215,748.00	2,217,576.11
Short-term provisions	1,103,639.53	384,437.23
Tax liabilities	1,864,838.28	2,230,606.00
<b>Total current liabilities and provisions</b>	<b>15,227,683.01</b>	<b>12,641,795.90</b>
<b>Total shareholders' equity &amp; liabilities</b>	<b>39,684,359.87</b>	<b>36,331,485.10</b>

## Consolidated Statement of Changes in Equity

for the period from 1 January 2005 to 30 June 2005, and from 1 January 2006 to 30 June 2006 pursuant to IFRS

	Subscribed capital	Capital reserve	Retained earnings	Consolidated balance sheet profit / loss	Minority interest	Total
	in T€	in T€	in T€	in T€	in T€	in T€
As per 1 January 2005	5,025	7,950	1,568	- 2,531	-	12,012
Capital increase in 2005	500	5,810	-	-	-	6,310
Expenses incurred by the capital increase (IAS 32.37)	-	- 29	-	-	-	- 29
Consolidated net income as per 30 June 2005	-	-	-	1,812	-	1,812
As per 30 June 2005	5,525	13,731	1,568	- 719	-	20,105
As per 1 January 2006	5,525	13,731	1,568	2,419	-	23,243
Consolidated net income as per 30 June 2006	-	-	-	192	1	193
<b>As per 30 June 2006</b>	<b>5,525</b>	<b>13,731</b>	<b>1,568</b>	<b>2,611</b>	<b>1</b>	<b>23,436</b>

# Consolidated Cash Flow Statement

for the period from 1 January 2006 to 30 June 2006 pursuant to IFRS

	01/01/ – 30/06/2006 in T€	01/01/ – 30/06/2005 in T€
Consolidated net income before tax	462	2,800
Depreciation of fixed assets	123	125
Other non-cash income and expenses (incl. result from associated companies)	– 305	– 16
Profit / loss from the disposal of property, plant and equipment	– 11	– 1
Financial income	– 188	– 62
Financial expense	7	64
<b>Sub-total</b>	<b>88</b>	<b>2.910</b>
Increase /decrease in accruals and provisions (net of discounting effects and non-cash releases)	899	368
Increase /decrease in inventories	– 10,776	11
Increase /decrease in prepayments	– 11,320	– 1,198
Increase /decrease in long-term receivables from construction contracts	– 3,631	– 322
Increase /decrease in trade receivables (excl. non-cash transactions)	5,900	– 6,949
Increase /decrease in other assets	– 1,116	1,822
Increase /decrease in liabilities	– 325	3,672
<b>Funds generated by operating activities</b>	<b>– 20,281</b>	<b>314</b>
Interest paid	– 7	– 51
Taxes on income paid /refunded	– 808	– 31
<b>Cash flow from operating activities</b>	<b>– 21,096</b>	<b>232</b>
Withdrawals from associated companies	47	30
Proceeds from disposals of property, plant and equipment	14	1
Investment in intangible assets and property, plant and equipment	– 389	– 45
Investment in financial assets	– 500	0
Start-up costs of Phoenix Energía Solar S.L.	– 6	0
<b>Cash flow from investment activities</b>	<b>– 834</b>	<b>– 14</b>
Cash receipt from the issuing of capital	0	6,281
Repayment /borrowing in connection with financial liabilities	2,528	– 1,266
Interest received	111	42
<b>Cash flow from financing activities</b>	<b>2,639</b>	<b>5,057</b>
<b>Net changes in cash</b>	<b>– 19,291</b>	<b>5,275</b>
Cash fund at the beginning of period	20,069	3,374
Cash fund at the end of period	778	8,649
<b>Changes in cash fund</b>	<b>– 19,291</b>	<b>5,275</b>



# Notes

to the Interim Consolidated Financial Statements  
of Phönix SonnenStrom Aktiengesellschaft, Sulzemoos  
pursuant to IFRS for the period from 1 January 2006 to 30 June 2006

## A. GENERAL

A total of four companies have been included in the consolidated financial statements of Phönix SonnenStrom AG as at 30 June 2006.

The Interim Report as per 30 June 2006 has been drawn up pursuant to the standards of IFRS/IAS. The interpretations of the Standing Interpretations Committees (SIC) have been observed. All figures from previous periods have been calculated applying the same principles.

The important accounting, valuation and consolidation methods used have not changed in comparison to those applied to the consolidated financial statements drawn up as per 31 December 2005. As against 31 December 2005, the group of consolidated companies of the Phönix Group has been supplemented by one more company. On 30 June 2006, the companies listed below formed part of the group of consolidated companies of Phönix SonnenStrom AG:

Company	Consolidation type	Share
Phönix SonnenStrom AG, Sulzemoos	Parent company	
Phönix Projekt & Service AG, Sulzemoos	Fully consolidated	100 %
Phönix SonnenFonds Verwaltungs GmbH, Sulzemoos	Fully consolidated	100 %
Phoenix Energía Solar S.L., Madrid	Fully consolidated	95 %

The following companies are included in the consolidated financial statements using the at-equity method:

Renewable Energies Development 2002 (Red 2002) S.r.l., Rome	At equity	49 %
Phönix SonnenFonds GmbH & Co.KG B1, Sulzemoos	At equity	31,2 %

The Interim Report consists of the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement and summarised notes to the consolidated financial statements.

## B. IMPORTANT INFORMATION ON THE PERIOD COVERED BY THE INTERIM REPORT

With effect from 1 January 2006, Phönix SonnenStrom AG purchased a participation of 49 percent in Renewable Energies Development 2002 (RED 2002) S.r.l., an Italian company headquartered in Rome. The costs of purchasing the participation came to T€ 500. The company was included in the consolidated financial statements as an associated company using the at-equity method in accordance with IAS 28.

With effect from 26 April 2006, Phönix SonnenStrom AG founded Phoenix Energía Solar S.L., a subsidiary headquartered in Madrid, Spain, in which it holds a 95 percent majority stake. The subsidiary was furnished with equity capital in the amount of € 10,000. Of its shares, 5 percent are held by the managing director of the company.

For the first time, in the first quarter of 2006, Phönix SonnenStrom AG concluded agreements for the delivery of modules with two Chinese module manufacturers. A letter of intent pertaining to a volume of 143 MWp was signed with one of these suppliers for the period up until 2010.

On 30 March 2006, the company concluded a framework agreement with one of its regular suppliers for the long-term delivery of photovoltaic modules with volume totalling around 265 MWp at minimum over a period up until 2011.

Pursuant to IAS 11, there are certain prerequisites under which construction contracts are to be valued using the percentage-of-completion method. Accordingly, the revenues accruing from these contracts are to be recognised in the income statement, with the concurrent effect on income, in the period in which work has been performed in line with the progress of work. Revenue from fixed-price construction contracts is to be recognised as such in accordance with the stage of completion. Revenue is calculated using the percentage rate of the internal and external expenses in the estimated total expenditure incurred by the balance sheet date for each contract. Prepayments received from the customer are set off against the asset value of the respective project. Prepayments received which exceed the asset value are disclosed under a separate item on the liabilities side.

As per 30 June 2006, receivables from long-term construction contracts worth T€ 3,631 were capitalised. In this process, the actual value of the portfolio, which came to T€ 7,865, was reduced by prepayments received of T€ 4,234.

Under profit recognition pursuant to IAS 11, the revenue included in the sales revenue from long-term construction contracts over the period from 1 January to 30 June 2006 stood at T€ 7,865. This figure comprises costs of T€ 6,877 and profit of T€ 988.

For the first time, an accruals item on the assets side was formed for costs already incurred in the context of a planned capital increase. Expenses amounting to T€ 419 were allocated to the "Prepaid expenses in connection with capital increase" item and thus disclosed without affecting the operating result in accordance with IAS 32.37. In this connection, a provision for deferred tax was set up in the amount of T€ 151. After the capital increase has been carried out, the balance of these amounts will be set off against the increase in capital reserve.

To account for the temporary difference between IFRS carrying amounts of assets and their tax-related assigned value, provisions for deferred tax amounting to T€ 665 were formed. Deferred tax on the tax-related loss of Phönix SonnenStrom AG incurred in the period from 1 January to 30 June 2006 was capitalised in the amount of T€ 435.

As per 30 June 2006, forward exchange transactions relating to the purchase of JPY 608,600,000.00 and USD 8,453,310.00 were concluded. On the reporting date, the attributable value stood at € 10,822,478.02. The difference between the forward price and the attributable value of T€ 152 was recognised, with the concurrent effect on the result.

There were no contingent receivables or liabilities on 30 June 2006.

Purchase commitments for buying material came to T€ 17,911 on 30 June 2006.

Obligations to take delivery of materials purchased (mainly solar modules) in relation to framework contracts totalled T€ 421,173.

On 30 June 2006, the workforce of the Phönix SonnenStrom Group numbered 86 employees.

## C. SEASONAL INFLUENCES

The course of business of companies in the photovoltaic sector is subject to strong seasonal and, in particular, weather-induced fluctuations. The results of the last quarter of a financial year are generally much higher than those of the first three quarters, especially the first and the second quarter.

The impact of the long, snowy winter has left its mark on the Power Plant segment, as construction on large-scale photovoltaic plants could only begin in the second quarter of the current year. Accordingly, the sales of the segment fell to T€ 36,733 in the second half of 2006, down from T€ 44,138 in the first half of 2005.

## D. SEGMENT REPORT

### Business segments

The Group is currently divided into two segments: Power Plants and Components & Systems. The main activities of these segments are as follows:

- |                      |  |
|----------------------|--|
| Power Plants         | – Sales, planning, construction and, if required, the operation of large-scale photovoltaic plants |
| Components & Systems | – Sale of complete photovoltaic systems and components   |

Information by segment is set out as follows:

# Primary Segment Report

for the period from 1 January 2006 to 30 June 2006 pursuant to IFRS

	Power Plants		Components & Systems	
	01/01/ – 30/06/2006 in T€	01/04/ – 30/06/2006 in T€	01/01/ – 30/06/2006 in T€	01/04/ – 30/06/2006 in T€
<b>Income statement</b>				
External sales revenue	9,292	8,931	27,377	12,454
Sales revenue between segments	–	–	–	–
<b>Sales revenue by segment</b>	<b>9,292</b>	<b>8,931</b>	<b>27,377</b>	<b>12,454</b>
<b>Result</b>				
Operating result	– 522	– 110	688	137
Financial result	–	–	–	–
Income from associated companies	–	–	–	–
Consolidated net income before tax	–	–	–	–
Income tax expense	–	–	–	–
Result net of minority interest	–	–	–	–
Share of profit due to minority interest	–	–	–	–
<b>Consolidated net income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

for the period from 1 January 2005 to 30 June 2005

	Power Plants		Components & Systems	
	01/01/ – 30/06/2005 in T€	01/04/ – 30/06/2005 in T€	01/01/ – 30/06/2005 in T€	01/04/ – 30/06/2005 in T€
<b>Income statement</b>				
External sales revenue	13,129	10,318	30,731	18,341
Sales revenue between segments	–	–	–	–
<b>Sales revenue by segment</b>	<b>13,129</b>	<b>10,318</b>	<b>30,731</b>	<b>18,341</b>
<b>Result</b>				
Operating result	291	287	2,337	1,566
Financial result	–	–	–	–
Income from associated companies	–	–	–	–
Consolidated net income before tax	–	–	–	–
Income tax expense	–	–	–	–
Result net of minority interest	–	–	–	–
Share of profit due to minority interest	–	–	–	–
<b>Consolidated net income for the period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Other		Consolidation		Group	
01/01/ – 30/06/2006 in T€	01/04/ – 30/06/2006 in T€	01/01/ – 30/06/2006 in T€	01/04/ – 30/06/2006 in T€	01/01/ – 30/06/2006 in T€	01/04/ – 30/06/2006 in T€
64	54	0	0	36,733	21,439
612	524	- 612	- 524	0	0
<b>676</b>	<b>578</b>	<b>- 612</b>	<b>- 524</b>	<b>36,733</b>	<b>21,439</b>
82	94	-	-	248	121
-	-	-	-	181	107
-	-	-	-	33	38
-	-	-	-	462	266
-	-	-	-	269	179
-	-	-	-	193	87
-	-	-	-	1	1
-	-	-	-	<b>192</b>	<b>86</b>

Other		Consolidation		Group	
01/01/ – 30/06/2005 in T€	01/04/ – 30/06/2005 in T€	01/01/ – 30/06/2005 in T€	01/04/ – 30/06/2005 in T€	01/01/ – 30/06/2005 in T€	01/04/ – 30/06/2005 in T€
14	2	0	0	43,874	28,662
263	263	- 263	- 263	0	0
<b>277</b>	<b>265</b>	<b>- 263</b>	<b>- 263</b>	<b>43,874</b>	<b>28,662</b>
165	129	-	-	2,793	1,982
-	-	-	-	- 2	- 28
-	-	-	-	9	8
-	-	-	-	2,800	1,962
-	-	-	-	988	686
-	-	-	-	1,812	1,276
-	-	-	-	0	0
-	-	-	-	<b>1,812</b>	<b>1,276</b>

## E. SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

In July 2006, the subsidiary Phoenix Energía Solar S.L. founded 61 subsidiaries with headquarters in Madrid. The share capital of each company comes to € 3,100 and has been fully paid up. The companies have been set up for a power plant project, currently at the planning stage, in Spain. Pursuant to IAS 27 in conjunction with IFRS 5, the companies have not been included in the group of consolidated companies of Phönix SonnenStrom AG as they are to be sold on in the near future.

Sulzemoos, 14 August 2006  
Phönix SonnenStrom Aktiengesellschaft  
The Board of Directors



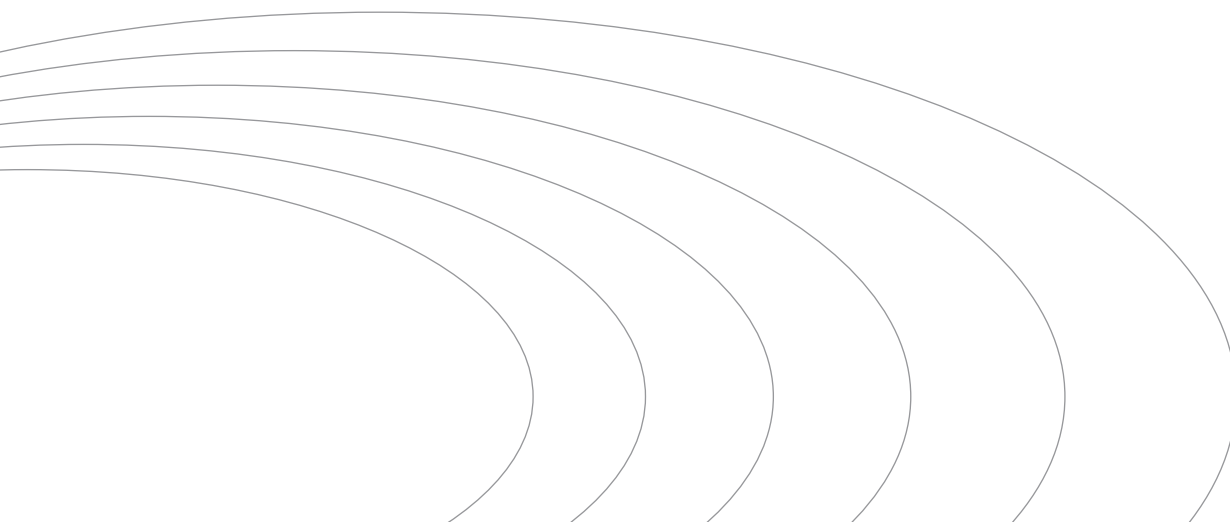
Dr. A. Hänel  
(CEO and Chairman  
of the Board of Directors)

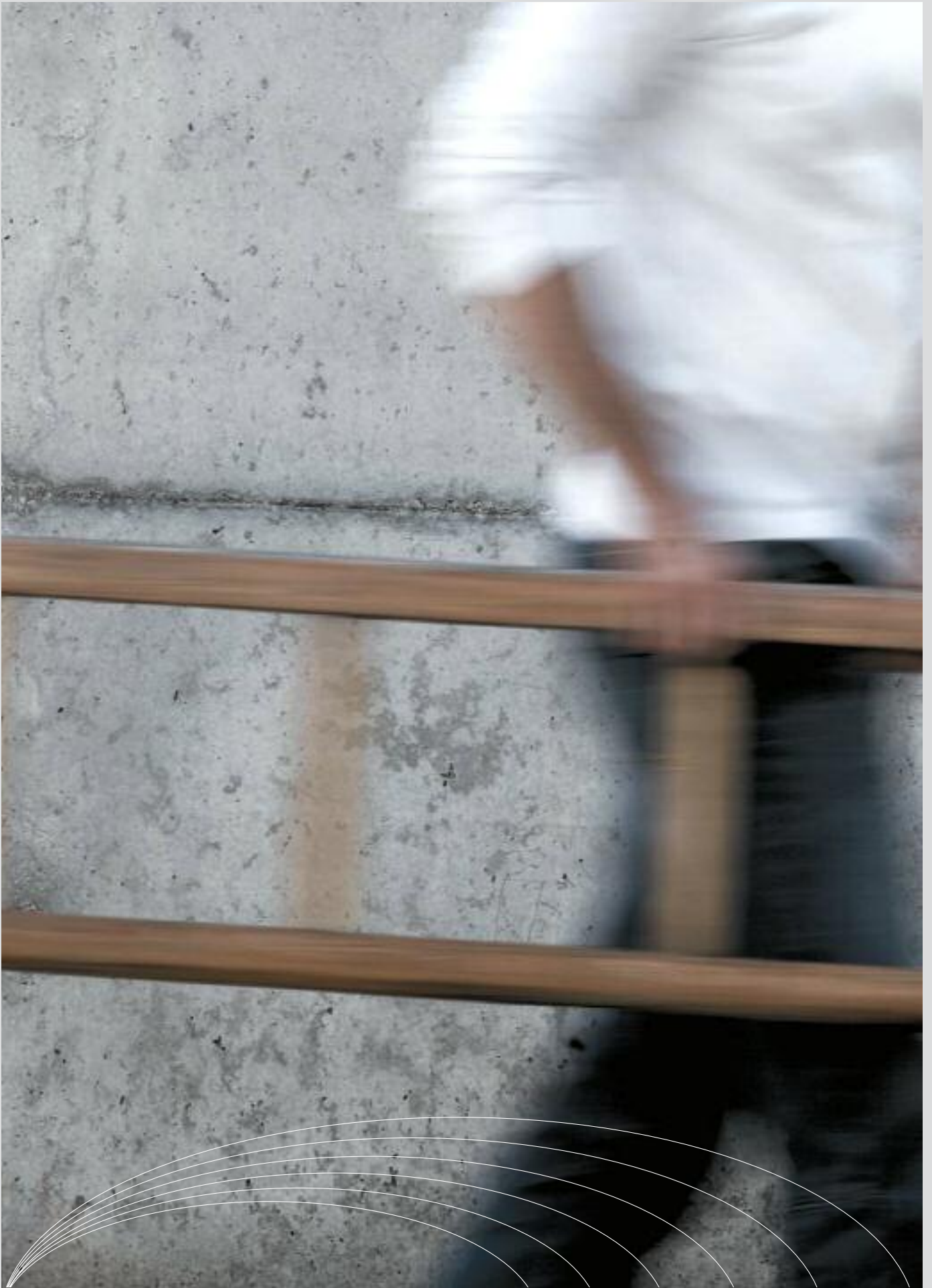


M. Bächler  
(Chief Technology Officer)



Dr. M. Cameron  
(Chief Operating Officer)







Phönix SonnenStrom AG  
Hirschbergstraße 8  
D-85254 Sulzemoos

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

[www.SonnenStromAG.de](http://www.SonnenStromAG.de)