

Corporate Governance Report



The aim of actions taken by the Board of Directors and the Supervisory Board of Phoenix Solar AG is to raise the enterprise value of Phoenix Solar AG on a long-term basis. A value-oriented, responsible and transparent management of the company fosters the trust of the shareholders and stakeholders. The processes and structures laid down in the German Corporate Governance Code (GCGC, or simply Code) ensure efficiency in the carrying out of management duties and prescribe control mechanisms for their supervision. With the exception of a few deviations, Phoenix Solar AG has adopted the recommendations of the GCGC and substantiates any departures therefrom. The company fulfils the requirements of the capital market and the public at large for transparency in open and active dialogue. This Corporate Governance Report, prepared by the Board of Directors and the Supervisory Board in accordance with Item 3.10 of the Code, describes the main corporate governance components of the company and explains any departures from the recommendations of the Code.

AMENDMENTS TO THE GERMAN CORPORATE GOVERNANCE CODE

The GCGC was reviewed and amendments were made to a number of items by the Government Commission of the German Corporate Governance Code in the version dated 6 June 2008. In the current version of the Code, the Commission has placed more emphasis on the role of the entire supervisory board in respect of the remuneration system of management boards. Whereas, up until now, the relevant supervisory board committee only deliberated on the structure of the remuneration system, the recommendation is that the board should now decide on issues relating to the remuneration system for board members, including the salient contractual components. The Supervisory Board of Phoenix Solar AG had already practised this prior to the amendment being made to the Code. The suggestions introduced in 2007 for capping payments made to the members of the Board of Directors in the event of an early termination of their activities have now been enacted in recommendations made in the current

Code version. The current contracts for the members of the Board of Directors at Phoenix Solar AG do not generally provide for any commitments in respect of severance payments. In 2008, a change of control clause was incorporated into the contracts of two members of the Board of Directors to take account of the event of a change of control. The code's recommendation in this case is for a cap of three years' worth of remuneration. The Code was extended in the area of accounting. Half-yearly and quarterly reports are to be deliberated on by the Supervisory Board or the Audit Committee, together with the Board of Directors, before they are published. Prior to the introduction of this new recommendation, the interim reports of Phoenix Solar AG were already being discussed in the regular meetings of the Audit Committee prior to being released.

MANAGEMENT AND SUPERVISION: THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

The Board of Directors and the Supervisory Board form the dual management structure of Phoenix Solar AG and work together with the common aim of raising enterprise value on a sustainable basis.

In the financial year ended, the Supervisory Board has extended the Board of Directors to five members and has concentrated the sales operations of the company into a new department headed by the Chief Sales Officer. The Chief Sales Officer is responsible for the global sales of the Components & Systems and Power Plants segments. In accordance with the recommendation of the Code, Ulrich Reidenbach, as the new Board member, has been appointed for a term of office of less than five years.

The members of the Board of Directors head up and manage the company under their own responsibility. The Board of Directors develops the corporate strategy and initiates measures for its implementation at the operational level. A clear allocation of tasks determines the competences of the individual members of the Board of Directors. The Board of Directors meets regularly once a week and, in addition, remains in close contact. In the year 2008 as well, it has fulfilled its obligations of informing the Supervisory Board regularly and in a timely and comprehensive fashion on the issues of strategy, planning, business development, risk management and compliance. There were no conflicts of interest ascertained in respect of the members of the Board of Directors in the financial year ended.

The Supervisory Board consists of six members who supervise and advise the Board of Directors in the management of the company. It does not have any representatives of the employees as the number of employees of Phoenix Solar AG is below the threshold defined by law for co-determination in supervisory boards. The Supervisory Board agrees the strategy developed by the Board of Directors and keeps itself informed of the status of strategy implementation. Moreover, finance and investment planning in the coming financial year and medium-term planning is also submitted to the Supervisory Board. Outside of the regular meetings, the Chairman of the Supervisory Board in particular engages in ongoing dialogue with the Chairman of the Board of Directors on the issues of strategy, business development and risk management.

The Supervisory Board concerned itself with methods for reviewing the efficiency of its activities in the year 2008. Detailed defining of these methods and final approval has been scheduled for 2009.

Members of the Supervisory Board do not maintain personal or business relationships with the company which could give rise to a conflict of interest, thereby putting the independency of the Supervisory Board at risk. There were no conflicts of interest in the financial year ended.

THE COMMITTEES OF THE SUPERVISORY BOARD

To improve the efficiency of its work, the Supervisory Board of Phoenix Solar AG has formed three committees. In supplementation of the Audit and Personnel Committees, the Supervisory Board followed the recommendation of the GCGC at the end of the financial year 2008 and set up a Nomination Committee.

The Audit Committee has three members: Prof. Dr. Thomas Zinser (Chairman), Ulrich Th. Hirsch and Dr. Patrick Schweisthal. The committee is tasked with defining the key audit areas in respect of the annual accounts with the independent auditor and with discussion of interim reports. The committee met four times for this purpose in the financial year 2008, namely on 28 February, 4 and 31 July and on 29 October. On the initiative of the Audit Committee, the Supervisory Board has agreed with the independent auditor that the Chairman of the Audit Committee will be informed without delay if, during the audit, potential reasons for exclusion and prejudice arise and cannot be immediately resolved.

The Personnel Committee, similarly made up of three persons, is responsible for agreeing goals in the context of the performance-related remuneration of the members of the Board of Directors and for ascertaining the extent to which goals have been achieved. The preparation of contracts of the Board of Directors is also part of the responsibilities of the Personnel Committee. In the financial year ended, the committee met to discuss creating and filling the new position of a Chief Sales Officer. Beyond this, the committee developed measures to continually improve the communication between the executive bodies of the company. The committee consists of the persons of Mr. J. Michael Fischl (Chairman), Ulrich Fröhner and Prof. Dr. Klaus Höfle. In the financial year 2008, the Personnel Committee met on 16 January and held four telephone conferences on 9 April, 25 June as well as on 8 and 22 October.

The newly founded Nomination Committee is made up of the following members: J. Michael Fischl (Chairman), Prof. Dr. Klaus Höfle and Prof. Dr. Thomas Zinser. The committee is responsible for putting forward proposals for suitable candidates to the Supervisory Board which it then presents to the Annual General Meeting for the purpose of electing new Supervisory Board members. In the financial year ended, the committee held a constituent meeting on 17 December 2008.

SHAREHOLDINGS AND DIRECTORS' DEALINGS

The securities transactions of the Board of Directors and the Supervisory Board in the shares of Phoenix Solar AG within the meaning of Section 15a (Directors' Dealings) of the German Securities Trading Act (WpHG) are listed in an updated form on the company's website at www.phoenixsolar.com under the heading Investor Relations, Phoenix Share, Directors'

Dealings. The insider guideline of Phoenix Solar AG provides for a blackout period which spans the time from the end of the period up until the publishing of the business results. The recommendation to insiders is that they should refrain from trading in the shares of the company during this period. External insiders, suppliers for instance, are also notified of this blackout period.

In the financial year 2008, a series of individual reportable and not reportable transactions within the meaning of Section 15a of the German Securities Trading Act (WpHG) were carried out by the Board of Directors and the Supervisory Board. The proportion of shares held by the Board of Directors and the Supervisory Board has fallen owing to the increase in share capital in April 2008. The table below gives an overview of shareholdings (direct and indirect) of the Board of Directors in the shares issued by the company:

BOARD OF DIRECTORS	UNITS		SHARE IN %	
Dr. Andreas Hänel	227,200	(242,200)	3.40	(3.99)
Manfred Bächler	183,530	(183,530)	2.75	(3.02)
Dr. Murray Cameron	69,750	(69,750)	1.04	(1.15)
Sabine Kauper	190	(0)	< 0.01	(0)
Ulrich Reidenbach	160	(0)	< 0.01	(0)

As per 31 December 2008. Previous year's figures in brackets.

At Supervisory Board level, Mr. Ulrich Fröhner (18,600 units, 0.28 percent) and Prof. Dr. Klaus Höfle (1,575 units, 0.02 percent) hold shares in the company. Supervisory Board member Dr. Patrick Schweisthal sold all his shares (5,450 units) in the financial year 2008. As per 31 December 2008, the Supervisory Board therefore holds 0.30 percent (2007: 0.53 percent) and the Board of Directors 7.19 percent (2007: 8.15 percent) in the share capital of the company. The members of both executive bodies together hold shares amounting to 7.49 percent in the company (2007: 8.68 percent).

REMUNERATION REPORT

The details of the remuneration system of the Board of Directors and the Supervisory Board, as well as an itemised listing of remuneration, are included in Section 4 of the Management Report.

TRANSPARENT AND ONGOING COMMUNICATION

Phoenix Solar AG informs all stakeholders, such as institutional investors, private investors, analysts, media representatives and employees (principle of fair disclosure) in an extensive and timely manner. Business developments and the earnings and financial position are reported on by the company in quarterly and annual reports as well as in telephone conferences. The accompanying presentations and audio recordings of the telephone conferences are available in English on the website of the company. The Articles of Association are also available on the website. The company reports on current events in the form of press releases. Phoenix Solar AG fosters direct contact with analysts and investors in the context of road shows, regular capital market and investor conferences as well as numerous one-to-one discussions with investors.

JOINT DECLARATION OF CONFORMITY

BY THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF PHOENIX SOLAR AG
ON THE GERMAN CORPORATE GOVERNANCE CODE

Pursuant to Section 161 of the German Stock Corporation Act (AktG), the Board of Directors and the Supervisory Board are obliged once a year to declare that the recommendations of the Government Commission of the German Corporate Governance Code have been and will be complied with and which recommendations are not and will not be complied with.

The Board of Directors and the Supervisory Board of Phoenix Solar AG herewith declare that the recommendations of the Government Commission of the German Corporate Governance Code in the version dated 6 June 2008 have been complied with and are complied with from the date when the last Declaration of Conformity was submitted, to the exception of the following:

APPROPRIATE DEDUCTIBLE IN THE D&O INSURANCE TAKEN OUT FOR THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

in accordance with Item 3.8 of the Code

Phoenix Solar AG is of the opinion that a deductible for members of the Board of Directors and the Supervisory Board does not constitute an additional motivation for the members of these executive bodies to act diligently. Moreover, accountability under German criminal law of the individual executive body member for wilful negligence or betrayal of confidence remains unaffected, regardless of the form which the D&O insurance takes.

POSSIBILITY OF LIMITATION (CAP) IN RESPECT OF EXTRAORDINARY, UNFORESEEABLE DEVELOPMENTS IN PERFORMANCE-RELATED REMUNERATION COMPONENTS

in accordance with Item 4.2.3 of the Code

The share option programme of Phoenix Solar AG does not provide for any limitation on the pecuniary advantages accruing to those entitled. The number of share options allocated is determined by individual performance. At the same time, there are ambitious conditions for exercising such rights. This makes having a maximum limit redundant from the standpoint of the company.

LONG-TERM SUCCESSION PLANNING BY THE SUPERVISORY BOARD TOGETHER WITH THE BOARD OF DIRECTORS

in accordance with Item 5.1.2 of the Code

Up until now no formalised process has been set in place. The Supervisory Board, however, is deliberating on this topic.

AGE LIMIT FOR MEMBERS OF THE BOARD OF DIRECTORS

in accordance with Item 5.1.2 of the Code

There have been/are no plans to place a limit on the age of members of the Board of Directors.

The qualifications required for membership in the Board of Directors are first and foremost knowledge, ability, and specialised experience.

FORMATION OF A NOMINATION COMMITTEE

in accordance with Item 5.3.3 of the Code

At the end of 2008, the Supervisory Board set up a Nomination Committee. The recommendation has been adopted since this time.

AGE LIMIT FOR MEMBERS OF THE SUPERVISORY BOARD

in accordance with Item 5.4.1 of the Code

Similar to the Board of Directors, determinant criteria for membership in the Supervisory Board are first and foremost the qualifications and the experience of the respective candidate. For this reason, there are no plans to place a limit on the age of members of the Supervisory Board. Moreover, placing a limit on age would unduly restrict the rights of the Annual General Meeting to appoint Supervisory Board members.

TAKING ACCOUNT OF EXERCISING OF THE CHAIR AND MEMBERSHIP IN COMMITTEES IN THE REMUNERATION PAID TO THE SUPERVISORY BOARD

in accordance with Item 5.4.6 of the Code

Special remuneration for the exercising of the Chair or membership in committees has not yet been provided for. Instead committee members receive attendance remuneration. Committed cooperation of the Supervisory Board members on the committees is guaranteed through other remuneration. A proposal is to be put to the Annual General Meeting to be held on 19 May 2009 to grant remuneration for the activities of Supervisory Board members in committees with retrospective effect from 1 January 2009. This measure will therefore fully serve to implement Code Item 5.4.6.

PUBLICATION OF THE ANNUAL FINANCIAL STATEMENTS WITHIN 90 DAYS

in accordance with Item 7.1.2 of the Code

In order to ensure that high standards are fulfilled in the preparation of the annual accounts at company and at Group level, they will be published within a period of four months following the end of the reporting period in accordance with Sections 37v para. 1 sentence 1, 37y sentence 1 of the German Securities Trading Act (WpHG).

Sulzemoos, 19 March 2009
Phoenix Solar Aktiengesellschaft

On behalf of the Board of Directors



Dr. Andreas Hänel
(Chairman of the Board of Directors)

On behalf of the Supervisory Board



J. Michael Fischl
(Chairman of the Supervisory Board)