

## Corporate governance report for 2017 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, 2015 (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% 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%, 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 (SVPs & Region Heads, Global VPs). The first management level currently consists of four members of staff, none of whom are women (corresponding to a 0% proportion).
- a) 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 (VPs, GMs, 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% 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%, and determines that this target be met by June 30, 2017.
- c) 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%, 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% is set for the proportion of women pursuant to Section 111 (5) of the German Stock Corporation Act (AktG).
- a) For the Supervisory Board, a target of 0% 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 and Supervisory boards 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:

**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

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

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For the Supervisory Board  
Oliver Gosemann  
(Supervisory Board Chairman)