

ANNUAL REPORT

Live values.
Assume responsibility.

Annual Report 2005

sunways
Photovoltaic Technology

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**Ladies and gentlemen,
dear shareholders and business associates
of Sunways AG,**



«Assume responsibility» – this was the leitmotif we used to write our Annual Report 2005. For a year in which one record after another was broken in the solar industry, this may seem too serious to many people. Another year of stormy market growth with the solar shares among the year's winners on the stock exchange, and numerous new IPOs – would it not have been more appropriate to really pop the corks?

In fact, Sunways AG had not just one, but many reasons to celebrate in 2005. In September, our new plant began operating and we celebrated this with our customers, suppliers and business partners. Once again, our sales increased and despite start-up expenses for the new factory, we generated earnings of EUR +2.1 million. The market also continued to experience an unstable development: In Germany, the federal elections ended a phase of uncertainty and abroad, solar energy is now also being discovered in places where it previously played a rather subordinate role in the energy mix.

In a market environment of this kind, assuming responsibility means thinking for the long term. Sunways has been operating on the solar market for twelve years now. During this time, the market has experienced several stages of development: from a playground for idealists to a niche market with an eco-label to an industry with currently over 40,000 jobs and a market volume of around EUR 3.7 billion in Germany alone. This growth has just recently attracted many new market players who, with their sometimes dubious concepts, want a slice of the action without really being rooted in the solar industry.

We believe that sustainability is a crucial factor not only in energy supply but also in company management and relations with business partners. This is why, for instance, we have secured the supply of silicon on the market, which is characterized by the huge scarcity of materials. I am convinced that this was only possible on reasonable terms because Sunways is recognized as a reliable player with many years experience.

However, responsibility also means keeping an eye on the further development of the market. In a market phase such as we are currently experiencing, there is a great temptation to meet undifferentiated demand with high unit figures. We want to resist this temptation and adhere to our strict quality orientation and innovation leadership. Mass production at any price will never happen in our Company. The opening of the new factory in Arnstadt allowed us to divide up our production: In Constance, we manufacture as ordered according to the individual special requests of our customers. In Arnstadt, we produce «High-tech in series» – standard solar cells of optimum quality with the highest efficiency rates. Endurance tests verify our quality and performance advancement on a regular basis.

We have many plans for the coming year. After our new plant in Arnstadt successfully completed the start-up phase in the fourth quarter of 2005, this will contribute in full to sales and earnings in 2006. As higher unit figures are now possible, we can achieve returns to scale which were previously unattainable with the Constance production alone.

Initial orders in the new year seem optimistic to us. In this way, we exclusively provide automotive supplier Webasto with solar cells which are installed in sliding roofs. This order also required intensive general research work beforehand which is now paying off. But furthermore, this order shows that there are also sales opportunities for innovative solar products outside markets influenced by development money.

We will also continue to focus on sustained growth for Sunways AG. To this end, we are occupying the core sectors in photovoltaics with high-quality products, the best available on the market in terms of technology and quality. This core competence is what we are concentrating on.

Our investors have accompanied us since the going public in 2001 – some for an even longer period – on a path defined by constant growth and market-shaping innovations. We want to continue on this route and to keep finding the balance between exploiting current market opportunities and protecting company capital. A good example of this is our entry into thin-film technology. In 2005, we entered into a research and development cooperation with the Unaxis Group. The objective is to bring the thin-film solar cells to market maturity in two years. This type of cell requires considerably less silicon, making production much more efficient.

For the further development of our Solar Inverter, we will push technical possibilities to the limit in 2006 and achieve an efficiency rate of 98 percent – at the same production cost. In doing so, we will defend our long-term position in the market as technological leader, for the benefit of our customers.

We are looking to the future with optimism in 2006: In percentage terms, earnings will increase more sharply than sales in the same period. The extent of the earnings increase is influenced significantly by the price development for the raw material silicon. To ensure our silicon supply, we are developing our existing partnerships and examining different strategic options.

On behalf of all employees at Sunways AG, I wish to thank our shareholders, investors, customers, suppliers and business partners for placing their trust in us. In 2006, we promise again to do everything possible to justify this trust. Stay in contact with us – do not hesitate to approach us with your suggestions, questions and requests.

Sincerely yours,



Roland Burkhardt
Management Board

The Company



The year 2005 at a glance

- March** **New design for Transparent Sunways Solar Cell**
Results of an innovative manufacturing process using laser are a new design, increased efficiency rate and individual applications for the Transparent Sunways Solar Cell. This is the perfect cell for integration into building envelopes: in aesthetic, ecological and economic terms.
- May** **Cooperation agreement with Unaxis AG**
The agreement forms the basis for the extension of our product range to include solar cells and modules based on thin-film technology.
- June** **Cooperation agreement with Swiss Wafers AG**
We are increasing the number of our supply sources for wafers by combining the competences of both companies for the procurement of the raw material silicon and extending processing capacity for Swiss Wafers AG.
- June** **New device version of Sunways Solar Inverter NT**
The new device version now covers a voltage range of 350 to 850 volts. The Sunways Solar Inverter is thus optimally suited to the electrical properties of solar cells in the format 156 x 156 mm which are being increasingly represented on the market and are also produced by Sunways AG.
- June** **Market launch of the Sunways Solar Inverter NT 10000**
We are extending our inverter product family. The new device is the answer to the increasing size of photovoltaic systems and meets the customer requirement for more effectiveness and simpler handling of large inverters. It is the lightest device in its class.
- July** **Market launch of Sunways Communicator**
The device allows the remote diagnosis of photovoltaic systems from any computer with internet access: It continually checks the solar system for smooth operation, detects faults and informs the operator. This prevents yield losses.
- August** **Opening of sales office in Barcelona**
With the opening of our sales office in Barcelona, Spain, we are continuing internationalization in Southern Europe and are thus closer to our customers. Spain is the second largest solar market in Europe after Germany.
- September** **Official opening of Sunways Production GmbH**
After just 9 months of building, our new factory in Arnstadt/Thuringia began operation as scheduled. It produces «High-tech in series» with a capacity of 30 MW: high-quality mono- and multicrystalline Sunways Solar Cells.

Opportunities through value orientation. Our core competence is the development and manufacture of products for electricity production via solar energy. We concentrate on solar cells and inverters, and occupy the core sectors of the photovoltaic industry.

Since our Company was founded in 1993, we have developed from an engineering office for the planning and assembly of photovoltaic systems into a manufacturer, and have established a name for ourselves at an international level. Today, we focus on those products for which we can use our experience in development and production and which guarantee us market potential in the long term. To this end, we set our own Company quality levels, in order to be able to provide high-quality technology and precision. Our customers value the reliability of our specifications and rate us as a premium service provider. Assuming responsibility for quality is worth it – particularly in the long term.

«A system is only as good as the sum of its individual parts. The weakest link determines the performance of the system.» We always keep in mind this system-orientated way of looking at things for the advantage of the customer. The quality and efficiency of our products define the yield of our system. And thus the cell with the lowest value determines the yield of the module. For this reason, our customers require solar cells with uniformly high efficiency rates. We can only achieve this because we control the production process, which is the determining factor for consistently high quality: We choose our suppliers carefully and each individual solar cell which leaves our factory is checked for its quality. We make no compromises in this regard.

In 2005, Sunways AG experienced the largest growth in the Company's history to date. We remained focused on our goal at all times – to make photovoltaic products economical and suitable for everyday use – and thus systematically extended our product range and continuously improved our quality. We are committed to value orientation. This path is sometimes difficult, but effective in the long term – both for the environment and our Company.

Our corporate structures have remained manageable despite growth. In addition to Sunways AG, there are two wholly-owned subsidiaries: MHH Solartechnik GmbH with its head office in Tübingen and Sunways Production GmbH in Arnstadt.

Sunways AG is well-positioned on the growing solar market: Research and development, the production and sale of solar cells and inverters as well as modules manufactured with Sunways Solar Cells according to our specifications constitute

an important part at the end of the solar value added chain. In cases where the creation of company capacities would not be efficient, we enter into production partnerships. For this reason, a reliable German partner in Hungary has been manufacturing our Solar Inverters for many years. This results in substantial savings and competitive advantages. However, in our core areas we work only with our company resources.

Top technology for everyone. Our ability to not only 'do the right things' but to 'do things right', has made us a leading technological manufacturer of innovative products in the photovoltaic industry. Our philosophy is to produce the best quality at reasonable prices for our customers. All Sunways products are distinguished by their technical features, ecological benefits and high-quality design. Sunways products are full of extraordinary ideas which make the operation of productive photovoltaic systems easier. They have proven themselves over many years.

Sunways Solar Cells are high-quality mono- and multicrystalline solar cells made from a silicon base. They are used in all areas that depend on high efficiency and generate first-class yields. The guidelines and manufacturing tolerances set by us guarantee uniformly high manufacturing quality. We manufacture our cells in a variety of formats with up to 17 percent efficiency. Since January 2005, we have also been producing cells in the new format 156 x 156 mm. With this changeover, we are complying with the requirements of module manufacturers.

At the heart of every solar system is the solar inverter: It feeds the energy produced in the solar cells into the public electricity network. Sunways Solar Inverters NT, which we launched onto the market in 2003, continue to be the world's most efficient devices due to their innovative technology and an efficiency rate of 97 percent. For operators of solar systems, this means a considerable measurable, monetary advantage.

During the course of 2005, we redesigned our product structure: While Sunways Production GmbH has been producing «High-tech in series» – high-quality mono- and multicrystalline solar cells in large quantities – since January 2006, our Constance plant is establishing itself as a special supplier of colored and transparent solar cells and thus provides

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«High-tech made to measure». Among other benefits this realignment will mean positive results in the solar cell segment in the long term and will pave the way for further growth.

Investment in the photovoltaic industry contributes to climate protection, innovations and reduced dependency on the imported and limited, fossil fuel raw materials. Photovoltaics is an opportunity – manufacturing effective products is a challenge, for which we take responsibility.

Do the right things. Do things right. In order to advance this energy changeover, renewable energies must always be one step ahead of conventional energy carriers. For this reason, in 2005 we maintained our reputation as innovative manufacturer and systematically advanced product development in the solar cell and inverter sector:

Transparent Sunways Solar Cell – aesthetics with a new look. We reached a technological milestone in 2005 with the further development of the well-known Transparent Sunways Solar Cell. The basis of a new design is an innovative manufacturing process: Wafers are now processed using a laser-controlled method which is ideal for mass production. The results are a new design, increased efficiency rates and individual applications of Transparent Sunways Solar Cells in architecture, particularly for integration into building envelopes. The laser generates a perforated structure which can be adjusted to customer requirements: The holes may be square, round or any other shape. This means that the architect can cater to the individual wishes of the client and the building users.

The hole structure is distributed evenly in the module, the textured surface of the solar cell, together with the screen printing process, gives the module a homogeneous black appearance. Its efficiency rate is also impressive: Compared to transparent solar cells manufactured using other technologies, it has 13.8 percent at a transmittance of ten percent. The product is particularly interesting for customers who, on the one hand, demand an aesthetic architecture and, on the other, consider the ecological and economical benefits of the solar cell to be important.

The Renewable Energy Act (Erneuerbare Energien Gesetz – EEG) promotes the integration of photovoltaics in buildings by means of attractive feed-in payments. We are experiencing high demand from abroad and are convinced that the integration of photovoltaics in buildings is a future market.

Sunways Solar Inverter NT – stronger, better. In 2005, we again strengthened the market position of our inverter and catered for the needs of our customers: All Sunways Solar Inverters now cover a voltage range of 350 to 850 volts. Our devices are thus optimally suited to the electrical features of solar cells in the format 156 x 156 mm which are increasingly represented on the market and are also produced by Sunways AG. In addition, the variation possibilities for connecting photovoltaic modules are greater.

Simultaneous to this, we extended our product family. The new Sunways Solar Inverter NT 10000 is the answer to the increasing size of photovoltaic systems and customer requirements for greater effectiveness and simpler handling of large inverters. The use of one larger inverter instead of several smaller ones, improves the investment to yield ratio of the system for the system operator. The new cooling concept is innovative: The Solar Inverter NT 10000 has a heat exchange system that is separate from the electronics section. As a result, neither dirt nor dust can penetrate the inside of the unit.

Sunways Communicator – everything under control.

Operators of photovoltaic systems want to be sure that their systems will produce electricity without any faults. We have responded to this requirement and now offer the Sunways Communicator as an addition to our inverters. This device enables monitoring of all important characteristics of photovoltaic systems from any internet-enabled computer. It checks that the system is running smoothly, detects faults and informs the user of the solar system by sms, fax or E-mail. Continuous monitoring by Sunways. This is vital for the system operator, in order to prevent losses in yield.

Sales 2005 – customer loyalty and dialogue. Feedback, requests and ideas from our customers are important when it comes to optimizing our products. This is why we actively maintained dialogue with our customers throughout 2005.

We have extended the service package for our traders and sales partners by the «sunways on tour 2005/2006» campaign. In addition to supporting traders in the sale of inverters, the campaign focuses on expert argumentation for solar energy. As partners in the campaign, traders benefit from current sales promotion measures, receive regular information on Sunways products and can actively design their sales activities using the means of communication provided. In this campaign, Sunways emerged as informative and self-confident, with relevant advertisements in popular magazines and specialist journals, as well as brochures and information on the Sunways homepage. Inquiries from private solar energy users are automatically forwarded to the Sunways sales partner responsible. For campaign days or appearances at regional trade fairs, Sunways provides campaign partners with a display set, comprising a Sunways Solar Inverter and roll-out information screen. In this way we are helping the public to see solar energy as a trend-setting form of energy.

Parallel to the campaign, we held «Solar Inverter Workshops» once again. These practice-oriented training workshops, in which over 60 people participated in 2005, informed planners of photovoltaic systems, electricians and sales persons of the knowledge needed to operate and handle our inverters. Practice in using the device completed the program.

Customer loyalty and dialogue were also our goals at various trade fairs and conferences.

Trade fairs and conferences 2005		
Genera	23 – 25 February	Madrid (E)
20. Symposium Photovoltaische Solarenergie	09 – 11 March	Bad Staffelstein (D)
Solarexpo – International Exhibition and Conference on Renewable Energy	19 – 21 May	Vincenza (I)
20th European Photovoltaic Solar Energy Conference and Exhibition	06 – 10 June	Barcelona (E)
Intersolar 2005	23 – 25 June	Freiburg (D)

Sunny prospects in Southern Europe. Even though our production capacity in the year under review was still greatly limited, we rely on export and international markets to prepare the future for Sunways and to actively shape the markets. In 2005, our main emphasis was on Spain. The country is facing a solar boom: Ideal geographic and climatic pre-conditions as well as the adopted Electricity Feed-in Act (Conto Energia) are making Spain into one of the most important growth markets in Europe. The local photovoltaics industry is taking off and we are right there: In August 2005, we opened a sales office in Barcelona. From there, three employees are working on Spain and other promising Southern European markets.

Sunways Production GmbH – «High-tech in series».

Sunways Production GmbH in Arnstadt/Thuringia was started up as planned on 09 September 2005. The accumulation of several solar firms around Erfurt, connections with some of these firms and the clear declaration of the region of Thuringia to solar energy as a promising future energy carrier led to our decision on this location. We funded this so far largest individual investment in our corporate history in the total amount of Euro 22 million through convertible bonds, investment grants and bank loans.

The tight time schedule drawn up by us – there was an interval of only nine months between the laying of the foundation stone and the commissioning – put everybody involved to the test and required a high degree of coordination and commitment. Following a successful start-up phase, the plant has been producing «High-tech in series» since January 2006 as planned: High-quality mono- and multicrystalline Sunways Solar Cells are produced in large numbers in four-shift operations seven days a week. We were able to take advantage of our longstanding knowledge and experience in the production process of Sunways Production GmbH. Due to the large number of units, we can save costs and markedly increase the efficiency and productivity of the manufacturing process. With a production capacity of 30 megawatts, our subsidiary will make a crucial contribution to the Company's result in the fiscal year 2006 – we are well on the way to becoming one of the 15 top-ranking solar cell manufacturers worldwide.

Together with Sunways Production GmbH, Sunways also assumes responsibility for more than 60 new jobs and two trainee positions. The building offers additional production capacity; an expansion will occur in a responsible manner when the situation in the market for raw materials ensures the utilization of the resulting additional capacities.

Quality management continuously expanded. Following the certification of our quality management system in accordance with DIN EN ISO 9001:2000 in 2004, the first system promotion review took place in 2004 and was passed without problems. The system forms an integral part of our everyday work and is continuously expanded: In 2006, inter alia Sunways Production GmbH will be integrated. In addition to a continuous striving for improvement, the quality management system emphasizes our customer-orientation and qualifies us a supplier also for demanding customers, such as, for example, the automotive industry.

Cooperations combine strengths. 2005 was also a year of cooperations: In May, we entered into a cooperation agreement with Unaxis AG, Liechtenstein. The goal is to jointly erect a production plant for solar cells based on the thin-film technology within two years. A new production process will require less material and fewer production steps and thus reduce costs. Since June, the contractual cooperation with Swiss Wafers AG, Weinfelden (Switzerland), has contributed to the reliable supply of primary products. This cooperation combines the strengths of both companies in the area of silicon procurement and expands the processing capacities at Swiss Wafers AG. The contract with a 5-year term relates to the supply and purchase of an amount of wafers equal to a capacity (expressed in cells) of at least 7.5 megawatts. With this cooperation, we have increased the number of our wafer supply sources.

A passion for photovoltaics – training at Sunways. Sunways believes in sustainable management. Therefore, the decision to offer young people an opportunity to train in a future-oriented industry was not a difficult one. Thus we attract qualified employees for the future and interest a growing number of people in solar energy.

Our first apprentice successfully completed her training as an industrial clerk in January 2006 and is now permanently employed. Another commercial apprentice is currently in the first training year. Based on our positive experience, we will again offer trainee positions in 2006.

MHH Solartechnik GmbH – a healthy company with a future. Our wholly-owned subsidiary, MHH Solartechnik GmbH, is among the largest providers of photovoltaic systems in Germany. As a so-called system house, it covers all competence areas, from consulting and system planning through the distribution of all photovoltaic components to project services for special and large systems. MHH attaches great importance to long-term customer relations, intense consulting and customer care as well as impeccable services and timely delivery. Until the end of 2005, MHH also distributed the «MHH plus» solar modules with integrated Sunways Solar Cells. Sunways AG has been distributing these modules alone since January 2006.

MHH again benefited from its experience and close cooperation with renowned manufacturers and customers in 2005: The enterprise recorded a significant 26 percent rise in sales against 2004.

2005: Politics assumes responsibility for the environment.

The summer of 2005 was marked by the German federal elections. The energy and environmental policy was a central election campaign theme. Much was discussed in connection with the elections, also with regard to potential effects on the Renewable Energy Act (Erneuerbare Energien Gesetz – EEG). We held many discussions with politicians, investors and citizens. Support for solar technology cut through all strata long ago. So it was only logical that politicians from all parties and fractions should make the development of solar energy a joint task. And it was no surprise when the theme of renewable energy featured in the coalition agreement, which came into effect in November 2005, and the parties committed themselves to continuity and reliable framework conditions.

The course is set for the energy policy and the future of photovoltaics is on safe ground: The new government has agreed that, for the time being, the duration of nuclear power stations will not be extended. It is committed to continuing the previous policy and in the coalition agreement describes renewable energy as the key element in climate protection and energy policy and as a driver for employment. The cornerstone of the law – guaranteed network access and guaranteed feed-in tariffs – are not to be shaken.

With the measures anchored in the coalition agreement, German politicians have assumed responsibility for the further consolidation and expansion of renewable energy. With the photovoltaics industry and its technological advancement worldwide, Germany has a future technology which will create sustainable growth and secure jobs. The EEG has proven itself as the key to the solar market. Countries with feed-in systems similar to the German one are successful. Those building on other models, largely experience stagnation. The law is thus the best solution to gain investors in equipment for the exploitation of renewable energies, as they – like the developers and manufacturers – need long-term planning security.

Meanwhile, Germany has gained a global top position in photovoltaics and now has the opportunity of developing solar technology into a powerful economic engine and export hit. No other technology will offer this kind of potential in the coming years.

Using the potential of photovoltaics and investing in renewable energy is thus also a task in terms of social policy.

At the turn of the year 2005/2006, the two leading German solar associations – Unternehmensvereinigung Solarwirtschaft e. V. and Bundesverband Solarindustrie e. V. – amalgamated to form the Bundesverband Solarwirtschaft e. V. (BSW). The new association represents over 650 companies and more than 40,000 employees. The amalgamation symbolizes the solidarity of all players in the photovoltaics sector and the increasing significance of this industry for the German economy: Currently, there are already more people employed in the renewable energies sector than in companies which generate electricity from conventional sources.

« The human right to energy can only be met with renewable energy. »

Final communiqué of the 3rd World Renewable Energy Forum on 30 November 2005 within the framework of the World Renewable Energy Assembly (WREA) in Bonn (Germany)

Silicon – bottleneck despite infinite availability. The boom in the photovoltaics sector resulted in strong excess demand for solar cells as early as 2004. Manufacturers invested in the construction and expansion of solar factories.

Around 90 percent of solar cells manufactured today are based on the raw material silicon, which is also used in the production of semi-conductors. This led to a bottleneck situation with respect to the manufacturing of the raw material high-purity silicon (polysilicon) and the wafers produced from this. Availability and price became central issues.

However, the bottleneck is not a problem of resources; there is more than enough silicon in the world. With a share of around 28 percent, after oxygen it is the second most common element on the earth. But until high-purity polycrystalline silicon is manufactured from this material for the semi-conductor and solar industry, it must undergo an expensive refining process. The cause of this bottleneck lies exclusively in the extended lead times for the capacity expansions of silicon producers.¹

In the meantime, the amount of high-purity silicon required by the photovoltaics industry today has become a very interesting factor for the manufacturers of this raw material and is triggering investment. Whereas before, the solar cell production was dependent on «waste» from the semi-conductor industry, high-purity silicon manufacturers are now extending their production capacities explicitly for the solar industry, both with regard to the amount available and the product quality – because solar silicon does not require the same degree of purity as chip silicon. For this reason, the producers are now working on more simple and advantageous manufacturing methods for so-called «Solar Grade Silicon». The measures are likely to reduce tension significantly from 2007 onwards and to reduce costs in the medium term, also to the benefit of the end consumer.

Under long-term contracts, Sunways AG has secured wafer supply until well into the second half of 2006. Parallel to this, we are optimizing our production process so that less silicon will be needed and are advancing the development of new cell types such as thin-film technology and material-saving processes. This progress in efficiency will have a positive impact on costs.

In focus: the real cost of electricity from renewable energy.

Against the backdrop of rising electricity prices, another theme occupied consumers and the industry in 2005: How will electricity prices develop and can photovoltaics ever compete with electricity from other sources?

Approximately ten percent of our electricity already comes from wind, sun, bio-energy, hydro power and geothermal power. Research shows that 25 percent of Germany's electricity supply could come from renewable energy by 2020.² In 2005, industry associations and the Federal Ministry of the Environment concluded that the expansion of renewable energy was no justification for higher electricity prices: With a charge of only half a cent per kilowatt hour of electricity used, or EUR 1.50 per month for a three-person household – this is the charge on the electricity bill for the promotion of electricity from wind, biomass and sun – the consumer cost of renewable energy is low. In comparison to 2003, it rose by approximately one tenth of a cent – however in the same period of time electricity prices rose by 0.8 cent per kilowatt hour.

The reproach that regeneratively produced electricity is too expensive, too uneconomical and highly subsidized by the government, is therefore untenable. Especially considering that coal subsidies cost each German citizen ten times more than the promotion of renewable energy – not including the resulting cost of the climate impact. Due to decreasing feed-in rates specified in the EEG, and the rising prices of conventionally produced electricity, the households' financial contributions to the promotion of renewable energy are continually declining – for the first time in 2005 and in spite of the rising level of regeneratively produced electricity.³

The EEG also plays a secondary role in the cost discussion. The shortage of fossil fuel energy, reflected in the rising prices of oil and gas, shows that we will have to rely more on renewable energy in the future. It is also a fact that electricity from renewable energy is becoming increasingly favorable due to its widespread implementation. The cost of solar energy systems has fallen by 60 percent in the last ten years.⁴

Prices are converging. This is partly due to technological progress such as the standardization of manufacturing and the optimization of raw material usage. However, this is primarily due to so-called economies of scale, i.e. the production of greater volumes: Each time the sales volume doubles, the prices for solar systems fall by 15 to 20 percent. While sales figures for solar systems grow, the promotion leads to a continually lower electricity price. Experts reckon that in 8 to 15 years electricity from renewable energy will be cheaper than that from fossil fuels. These options should not be left unexploited. The best provision for a future planned responsibly is the promotion of renewable energy.

« The transition to renewable energy is a historical necessity. No more time can be wasted in the global mobilization of renewable energy. »

German Environmental Minister,
Sigmar Gabriel, at the opening of the
World Renewable Energy Assembly
(WREA) on 26 November 2005 in
Bonn (Germany)





The Sunways share. 2005 was an extremely successful trading year for investors. This applied in particular to shareholders who had invested in solar shares. The Sunways share, for example, markedly outperformed all reference indices.

The share price rose from Euro 6.79 at the beginning of the year by 67 percent to Euro 11.35 at the end of the year. Although the highest prices of more than Euro 17 quoted during the year were not reached again, a new price increase was recorded in early 2006. The price of our convertible bonds also benefited from this. Taking a long-term perspective, it becomes evident that the solar market and its future-oriented technologies have matured: The Sunways share has been quoted above the reference indices for more than a year, and rightfully so.

In 2005, the Sunways shares aroused strong interest, not only on the part of private investors but also from institutional investors in Germany and abroad. Mainly investors in the United Kingdom are discovering German solar shares. We responded to this by significantly expanding our investor relations activities.

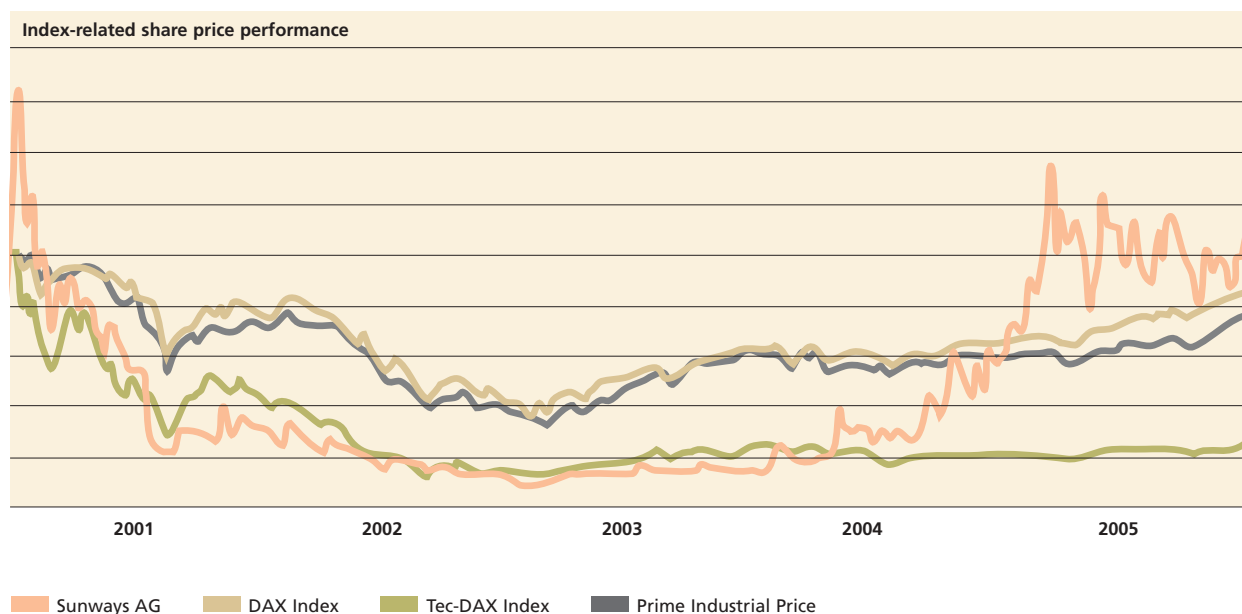
We welcomed in Constance a total of 56 representatives of banks, analysts and investors who wished to inform themselves about our Company and the Sunways share. On the occasion of various roadshows in Germany and Switzerland, we intensified existing contacts with our investors or established new ones.

In addition, we presented our Company at selected investor conferences:

- «growth & responsibility 2005»
Commerzbank AG, Frankfurt (Germany)
- «SCC Small Cap Conference 2006»
DVFA – Deutsche Vereinigung für Finanzanalyse und Asset Management, Frankfurt (Germany)
- «Annual Pan European Small / Mid Cap Conference»
Citigroup, London (Great Britain)
- «6. Forum Solarpraxis», Berlin (Germany)
- «Brancheninitiative High Tech Engineering»
Deutsche Börse AG, Equinet AG, Swissfirst Bank AG, Zurich (Switzerland)

In the talks with investors and analysts, it was found that the Sunways share is particularly attractive to investors with a long-term perspective and an interest in sustainable corporate growth. We will continue to approach this target group.

Numerous market studies also show how attractive an investment in a solar company is. In 2005, more market studies were published than ever before.



«Sun Screen II» by Credit Lyonnais Securities Asia, «Branchenanalyse Photovoltaik» by Landesbank Baden-Württemberg and «Boombranche Solarenergie» by Deutsche Bank were prominent examples. All studies refer to the great potential of the industry and emphasize that, in all, there are no technical, economic or raw material-related barriers to the growth of photovoltaics. Currently, the Sunways shares is analyzed by the following:

- Bank Sal. Oppenheim: Hartmut Moers / Stephan Wulf
- Citigroup Smith Barney: Dr. Benjamin Klufftinger
- Equinet Institutional Services: Gerrit Rohleder
- First Berlin: Scott McCollister
- Landesbank Baden-Württemberg: Patrick Hummel
- Öko-Invest Verlag / Kayenburg AG: Hilmar Platz

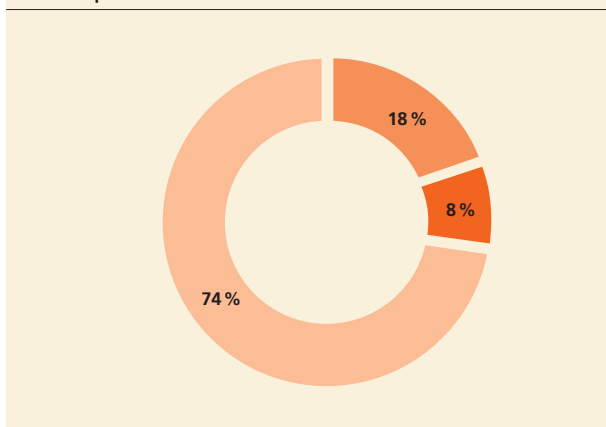
Mainly two newly adopted laws constituted a challenge with respect to investor relations activities in 2005: the Act on the Introduction of Investor Model Proceedings (Gesetz zur Einführung von Kapitalanleger-Musterverfahren – KapMuG) and the Act on Corporate Integrity and Modernization of the Right of Rescission (Gesetz zur Unternehmens-integrität und Modernisierung des Anfechtungsrechts – UMAG) resulted in extensive changes and related internal measures, mainly with respect to the organization of the annual general meeting.

Information on the shares and the general meeting, our company reports, directors' dealings and the financial calendar are updated and published on our website on an ongoing basis. Upon request, we will also be happy to provide you with current information via E-mail or mail.

We would like to thank all our shareholders and investors for their trust placed in Sunways AG. In numerous individual talks, on the telephone or at our general meeting, we also conducted an open dialogue with our private investors that we wish to continue in 2006. We will continue our policy of utter transparency and up-to-date information.

Key figures	2005	2004	2003
Earnings per share (€)	0.04	0.16	-0.17
Shareholders' equity per share (€)	1.74	1.66	1.47
Number of shares (weighted)	9,578,466	9,514,070	9,514,070
High/low (€)	17.49/6.79	7.95/1.75	2.25/0.84
Share price as of 31/12 (€)	11.35	5.95	1.85
Market capitalization as of 31/12 (€)	109,267,240	56,608,717	17,601,029

Ownership structure



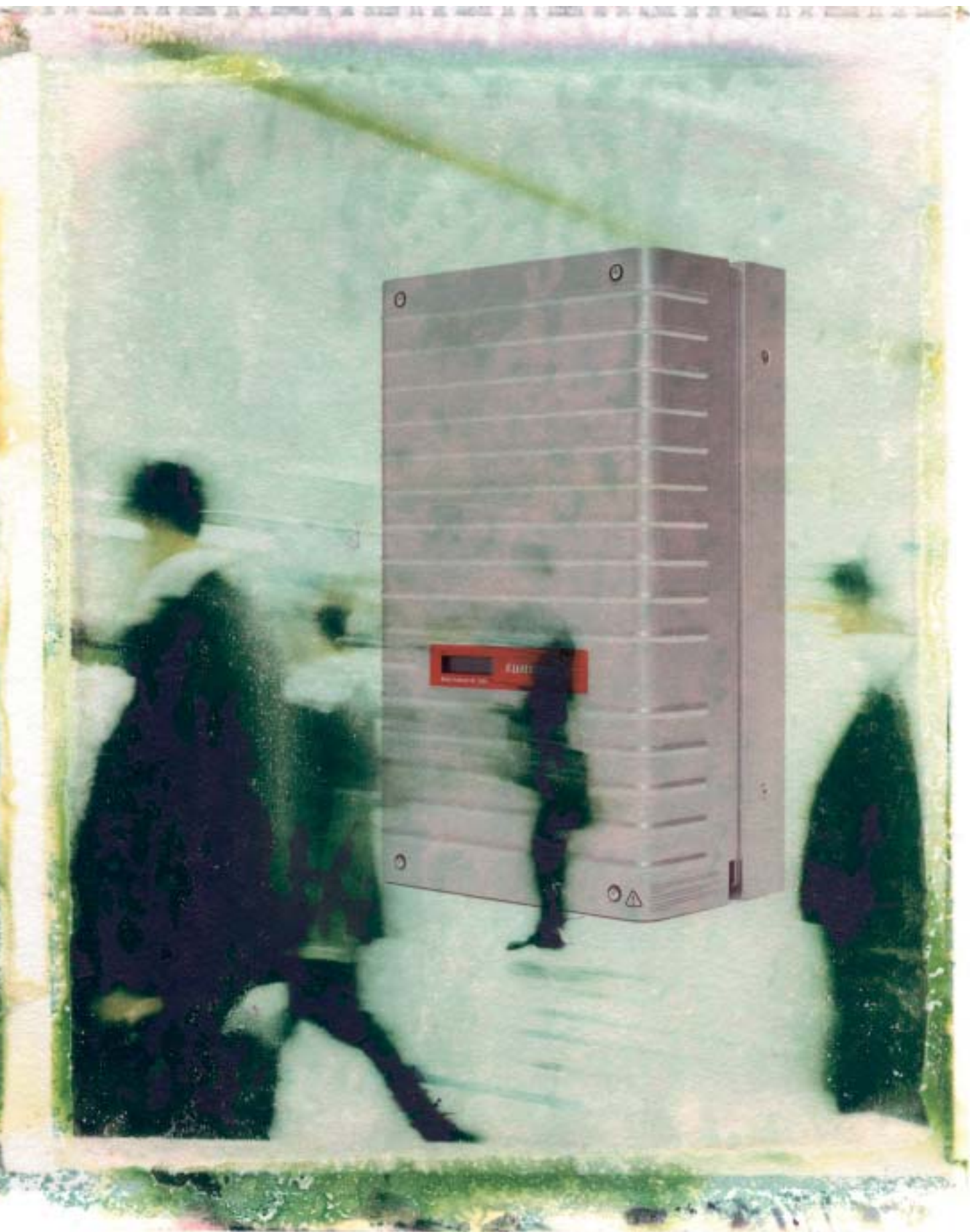
As of 31 December 2005

Free Float Supervisory Board Management Board

Shareholdings of executive bodies

	Shares as of 31/12/2005	Options as of 31/12/2005
Management Board		
Roland Burkhardt	1,740,345	30,000
Supervisory Board		
Dr. Roland R. Bahr, chairman	9,902	
Otto Mayer, deputy chairman	760,000	
Heinz W. Bull	0	
Ernst Haug	3,695	
Thomas Nordmann (since 19 May 2005)	0	
Frank Wehking	0	

Franz Heim withdrew from the Supervisory Board as of 31 January 2005. On 19 May 2005, the general meeting elected Mr. Thomas Nordmann as a new member of the Supervisory Board.



Group Management Report

Management Report. The business development 2005 forms the basis for the future growth of Sunways AG. The business divisions recorded a positive development against the background of the economic situation and the special aspects of the photovoltaic industry.

A. General economic development. Higher energy prices limit upswing of the world economy. As expected, the economic recovery of the years 2003/2004 also continued in 2005. Despite additional burdens, the world economy remained on its growth path. However, many areas were affected by the price development for crude oil and the related price increases.

In the second half of 2005, the recovery continued also in Germany. The favorable overall economic development was inter alia due to the positive level of industrial activity, the encouraging foreign trade position and construction investments. Domestic demand was dampened by the hesitant consumption of private households which were particularly affected by the high level of energy prices.

B. Development of the industry and the economic environment. Global photovoltaics market – energy without limits. Due to the increasing demand, the global photovoltaics market is growing along the solar value added chain. Global prognoses predict continuously strong growth, although the industry growth slowed down in 2005 as a result of the raw material shortage. An annual growth by approx. 30 percent is anticipated for the years 2006 through 2010; approx. 3.2 gigawatts of photovoltaic energy will have been installed by 2010. That means that the market will at least quadruple by 2010.⁵ Forecasts for the period from 2010 to 2020 range from «double-digit» to more than 20 percent and predict an overall installed capacity of up to 205 gigawatts in 2020.⁶ Growth will only be inhibited by the raw materials situation – a situation that does, however, not constitute a resource problem and will be overcome by the end of 2007 when the production capacities for solar silicon will have been developed. Growth is promoted by the shortage of fossil raw materials and continuously rising oil prices.

Regional markets experience a positive development. The international photovoltaics market is supported by politics almost everywhere. In 2005, it continued to be dominated by Japan, Germany and the USA which accounted for about 80 percent of the global market. According to experts, these countries will continue to be the major markets, although their share in the global market will decrease in the future due to the strong demand from other countries. The highest percentage growth rates are still recorded in Germany.

Japan. Solar energy is of particular importance in Japan which makes the country by far the largest regional market in terms of total capacity installed: Despite the reduced government promotion, new installations are expected to increase by 20 to 30 percent per annum. The goal to install a total of 4.8 GWp by 2010 seems realistic – about 340 MW were installed in 2005. This target is supported by the Ministry of Economy, Trade and Industry via an energy framework law that expressly mentions photovoltaics in the context of achieving the environmental targets. By 2030, the share of regenerative energies in the total energy consumption is to reach 10 percent, half of that amount – approx. 100 gigawatts – by means of photovoltaics. This goal is to be achieved through the «Residential PV System Dissemination Program» (RPVDP), which is still running in 2006 and promotes solar systems on residential buildings, as well as promotion programs for large systems. A stable market situation may be expected in the years to come.⁷

USA. The average market growth by 2010 is estimated at approx. 30 percent, making the USA an interesting market. Despite the Energy Bill adopted in August 2005, the promotion structure has been found to be development-inhibiting due to different regulations in individual states: While some federal states, such as California, Hawaii, Illinois, New Jersey or New York, generate momentum, there are few or even no promotional activities at all in most federal states. Market shares in the USA continue to shift slowly from insular systems to network-connected systems.⁸

Even if the prognoses for the strongest markets are not fulfilled to the extent referred to above, there will be no reason to worry – additional markets will develop, with major opportunities mainly offered in Southern Europe and Asia:

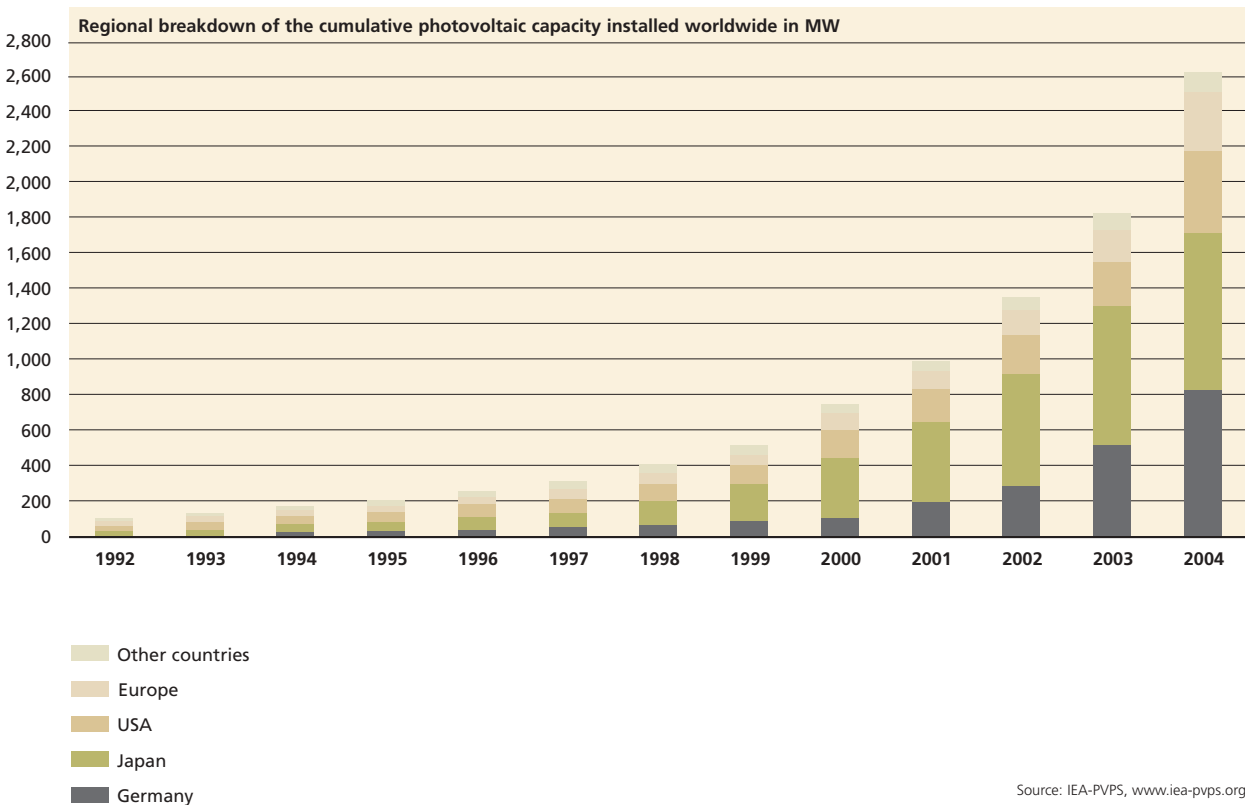
In **China** the government in 2005 announced that the share of regenerative electricity is to be increased from currently 7 percent to 15 percent of the energy consumption by 2020. Four gigawatts of the total increase will be generated by means of solar energy alone. With a corresponding law on the promotion of renewable energies, the nation is setting an important example as a pioneer among the emerging markets. Currently, China is the second largest energy consumer and generator of greenhouse gases worldwide. Hundreds of thousands of Chinese still have no access to the electricity network. With renewable energies, the country has provided electricity to one million people in remote areas and thus improved the development opportunities of these regions. The installed photovoltaic capacity in 2005 amounted to about 70 megawatts – this amount is to be increased to 450 megawatts by 2010. Five to seven percent of the electricity consumed is already produced regeneratively; studies assume that China will install more than 200 MW per annum from 2009 onwards.⁹

South Korea has published an expansion target by 2011 of 1.3 GW – seven percent of the required electric energy is to be produced regeneratively by 2011. This ambitious goal is supported by a law on the promotion of renewable energies, a 10-year research and development plan and a program for 100,000 solar roofs and the construction of large solar power stations.

Taiwan intends to install a total capacity of 6,500 megawatts based on renewable energies by 2020, 1,000 megawatts thereof photovoltaic.

The boom's end is not in sight.

European Union. The use of solar energy is not a specifically German solution. The insight that renewable energies have to be promoted has also been accepted on a European level. Photovoltaics is politically desired. Under the Directive 2001/77/EG of the European Union on the promotion of electricity generation from renewable energies, twelve percent of the EU gross domestic electricity consumption is to be produced from renewable energy sources by 2010. This goal is being implemented by the member states via national promotion programs; the installed capacity in the EU tripled between 2001 and 2004. This tendency clearly indicates that renewable energies and photovoltaics are gaining in importance, in particular on an international level. The implementation of the directive will lead to a strong market growth.



Other European countries offer an attractive potential for regenerative energies. As we had expected, primarily Spain developed into the most attractive and dynamic market among the up-and-coming European markets in 2005. The main reason for this – in addition to the perfect weather conditions – was a fixed energy feed-in rate, similar to the German model, introduced in 2004: Systems with a capacity up to 100 kilowatts receive the highest feed-in rate. The payments, which are graduated according to service years, are guaranteed for the entire useful life of the system. In addition, attractive subsidized loans were granted for the construction of systems.

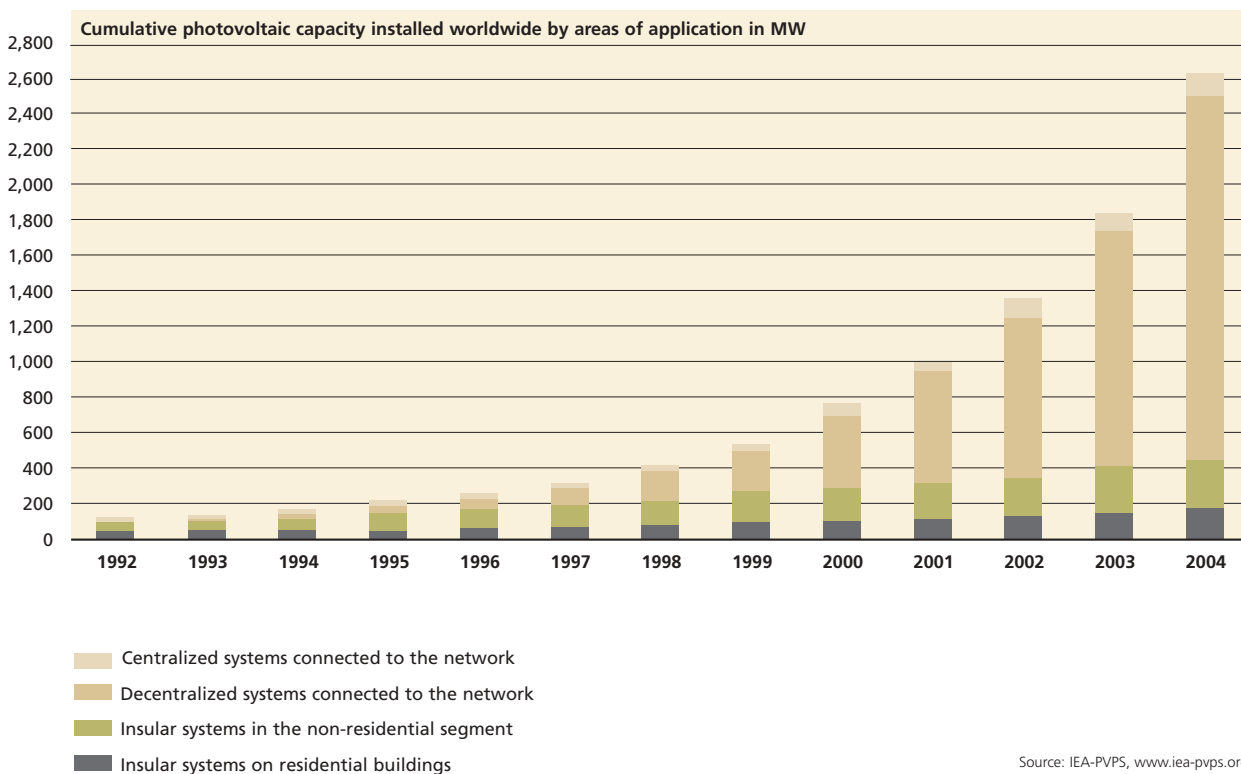
The installed capacity in Spain at year-end 2005 was 60 to 70 MW. The government is planning to increase the installed capacity from the originally envisaged 150 MW to a PV capacity of up to 500 MW. The Sarasin study anticipates a cumulative annual market growth of approx. 60 percent by 2010 – the installed capacity in Spain would then be 575 MW. In general, the market is expected to double on an annual basis. Many experts forecast a development of the Spanish market similar to that in Germany. To advance this development, the legal basis was created in October 2005 for a German-Spanish cooperation, the «Feed-in Cooperation» aiming at an exchange of experiences, increased cooperation and the support of other countries in the introduction of promotional models.¹⁰

In August 2005, we opened a distribution office in Barcelona. The local employees are in charge of Spain and the other growth markets of Southern Europe.

The Italian market is growing but only experienced a slow development in 2005 due to the unclear framework conditions. A feed-in rate for solar power based on the German model was adopted in summer 2005. Thus 300 megawatts are to be installed by 2015. The Sarasin study forecasts a growth to 235 MW by 2010.

There is also some activity in Portugal where the capacity installed is currently only about five megawatts: The government has increased the feed-in rate.

The German photovoltaics market – a market with prospects. Significant efforts were made over the last few years to promote the development of the German solar industry. Production capacities quadrupled, thousands of new jobs were created in the industry and trade. The demand for photovoltaic systems in the German market has been undiminished since the amendment of the Renewable Energies Act effective as of 01 January 2004. Solar systems have become lucrative investments.



Germany was the photovoltaics world champion in 2004: In terms of installed capacity, we outperformed Japan for the first time and held the leading position in terms of total per capita capacity. According to the initial estimates of the German Association of the Solar Industry (Bundesverband Solarwirtschaft), the German market grew by about 20 percent in 2005 despite the silicon shortage. Thus it may have exceeded a market volume of 600 MW. This is evidence of the enormous achievements in the area of efficiency improvement and the progress made in the development of modern production processes (thinner cells, higher efficiency rates). An annual growth rate of 40 percent is anticipated for 2006 and one of 30 percent by 2010.¹¹ Builders are less euphoric than manufacturers. Due to the strong demand, they have to accept long delivery periods for the systems.

The achievements of the German photovoltaics industry are impressive: According to the German Association for Renewable Energies (Bundesverband Erneuerbare Energien – BEE), renewable energies, with a 6.4 percent share in the total German energy consumption, for the first time made a larger contribution to the energy supply than nuclear power (approx. 6 percent) in the first half-year 2005. During the same period, the share of regeneratively produced electricity in the electricity generation (net) was eleven percent.¹²

The EU Directive 2001/77/EG determined national targets for the individual member states. The target for Germany is at least 12.5 percent. The goal of the German federal government is to produce at least 20 percent of our electric power from renewable energies by 2020 – and about half of the energy requirements by the middle of the century. In November 2005, the German federal government submitted a report to the EU Commission according to which Germany will reach the target set by the EU for the year 2010 with respect to the expansion of renewable energies if the promotion measures are continued.

Summarized profile of the German photovoltaics industry

Number of PV companies	> 5,000
Thereof manufacturers of cells, modules, components	50
Newly installed capacity in Germany in 2005	> 600 MWp
Total PV capacity installed in Germany in 2005 / number of systems	approx. 1,400 MWp / approx. 200,000 systems
2005 sales	approx. € 3 billion
Number of employees at the end of 2005 (prognosis)	> 30,000

Satisfactory results of the Renewable Energies Act (Erneuerbare Energien Gesetz). The feed-in rates under the EEG for new systems erected in 2006 will secure long-term market growth. Photovoltaic systems are allocated to various categories with different promotion rates. In this context, it becomes evident that an additional compensation of five cents per produced kilowatt hour is explicitly granted for the integration of photovoltaic elements into façades, e.g. for shading purposes. This market offers a large potential, inter alia for transparent solar cells.

Type of system		Promotion (€/kWh)
PV roof systems	< 30 kWp	0.5180
	> 30 kWp	0.4928
PV systems in open spaces		0.4060
PV façade systems	< 30 kWp	0.5680
	> 30 kWp	0.5428

The German government intends to double the amount of electricity fed into the public grid from renewable energies by 2010 and thus increase the share of renewable energies in the generation of electricity in Germany from 6.35 percent in 2000 to 12.5 percent in 2010. After more than five years, the EEG already records satisfactory results: The amount of electricity from renewable energies fed into the grid and paid for rose from about 8 terawatt hours (TWh) at the end of 1999 to approx. 37 TWh in 2004. Thus the total amount of electricity produced from renewable energies in that period increased from about 30 TWh to about 56 TWh. The production of solar electric power grew by a factor of 10.¹³ The emission of 52 million tonnes of climatically hazardous carbon dioxide has been avoided so far. Thus the EEG is one the most important instruments of active climate protection.

The feed-in rate is not a subsidy. It is not funded by the federal budget and tax revenues but entirely via a charge imposed on electricity bills. Therefore, the cost of the expansion of renewable energies is largely borne by major electricity consumers. The modification of public promotion by means of feed-in rates created a reliable and unbureaucratic basis of calculation for investors and made the decision for an eco-friendly generation of electricity independent of politically influenced promotion measures. This step provided the necessary planning security for the photovoltaics industry, bringing about a marked upswing and continuously rising incoming orders. Solar electric systems are lucrative. This fact provided access to new customer groups and gave new momentum to the industry. At the same time, the EEG initiated a technological development that will secure a leading position for Germany in the global market.

The EEG serves as an example for many EU countries.

A survey of the EU Commission presented on 8 December 2005 in Brussels also results in a positive appraisal of the German market: feed-in regulations such as the German Renewable Energies Act are the most effective and cost-efficient method of promoting the expansion of regenerative energy production.¹⁴

The EU Commission surveyed the regulations relating to the promotion of renewable energies in the member states and compared their effects. 16 out of the 25 EU member states already follow the example of the German EEG and promote the expansion of renewable energies through a fee payable with respect to the electricity fed into the public grids. In most cases, the highest growth rates are achieved by the countries with such feed-in regulations. At the same time, the cost of promoting eco-friendly electricity in these countries is significantly lower than in the countries with quota systems and corresponding certificates. In addition, the expansion in Germany and comparable countries is about four times more dynamic than in the countries with quota systems.

In connection with the German federal elections in 2005, the opinions of the parties on the promotion of renewable energies caused some uncertainty. In the meantime, the German federal government has taken a stand and its evaluation of the situation is similar to that of the EC Commission: Federal Environmental Minister Sigmar Gabriel wants to advance the expansion of renewable energies on a national as well as on a global basis in order to develop a future-oriented energy supply system and to efficiently fight climate changes. According to the Minister's statement at the 2005 World Renewable Energy Congress in Rome, the government would like to promote the economic development and create new jobs through a double strategy of energy and commodity efficiency on the one hand and an expansion of renewable energies on the other hand. In this context, the Federal Environmental Minister firmly disapproved of nuclear power and emphasized that the driver for the expansion of renewable energies in Germany was the Renewable Energies Act. He considered the 2007 review of the EEG agreed upon in the coalition agreement an opportunity to demonstrate the advantages of the law.

Mature technology with great potential. Nowadays the use of solar energy through photovoltaics constitutes a recognized technology that reliably provides electric power. The German enterprises continuously seek to achieve corresponding cost reductions so that solar technology can provide competitive electricity to everybody and investments remain attractive to end consumers. The existing innovation potential also secures the German economy's internationally leading position and competitiveness in this area.

With a market share of about 90 percent, the crystalline silicon technology continues to hold a strong market position.¹⁵ The current shortage of high-purity silicon is leading to increased efforts in the research and development sector: In order to save valuable material and thus reduce costs, the focus now is on the development of new solar cell materials and the optimization of production methods. Research and development activities will concentrate on larger and thinner wafers and the improvement of efficiency rates.

Thin-film modules are a good alternative to crystalline solar cells. A target group that is not in competition with that for crystalline solar cells will development for them.

C. Business divisions.

1. Solar cells. Strong sales growth once again. In the past fiscal year, sales in the solar cell division increased by 49 percent to € 32,370 thousand. Due to our still limited capacities, we were unable to increase the international portion of total sales (2005: 4 percent) against the prior year (2004: 13 percent) and primarily served the German market.

Sales of solar cells				
	2005		2004	
	k€	%	k€	%
Germany	31,203	96	18,905	87
Rest of Europe	777	3	2,550	12
Asia	390	1	250	1
Total	32,370		21,705	

As planned, sales in the solar cell division largely accounted for non-transparent Sunways Solar Cells made of mono- or polycrystalline raw material in a 156 x 156 mm format. An amount of € 185 thousand accounted for inter-company sales. In March 2005, we presented the Transparent Solar Cell with a new design.

Price increase in the market for raw materials. In 2005, there were significant price increases for the raw material high-purity silicon required for the production of solar cells. These price increases could be passed on to some extent.

Capacity expansion successfully implemented. An annual capacity of approx. 16 MWp is available at the Constance plant. On our flexible production line we can produce solar cells in the 100 x 100 mm, 125 x 125 mm and 156 x 156 mm formats. Due to the investments in the past years, our production activities are stable and on a high quality level. Continuous shift production operations (7 days per week) were conducted throughout the year. In the fiscal year 2005, the Constance plant produced solar cells equivalent to 11.7 MW (prior year: 11 MW). Thus we were able to increase the output by 6.4 percent while capacities remained unchanged.

An additional 30 MW have been made available in Arnstadt due to the erection of Sunways Production GmbH. The new production plant was commissioned on 09 September 2005 as planned and made a contribution of approx. 3.4 MW in the year 2005. The enterprise is producing in shift operations seven days a week.

Investments. In the past fiscal year, investments in the solar cell division amounted to € 24,052 thousand and mainly related to the construction of the new production plant in Arnstadt as well as the automation and modernization of our Constance production line.

Production capacity. Our technical production capacity at the Constance plant amounted to 16 MW. Our Arnstadt production plant was commissioned in September 2005 and was in the start-up phase until the year-end. In 2006, an additional capacity of 30 MW will be available there.

In Constance, we concentrate on the production of special cells: At this location, we manufacture for example colored solar cells or cells for the automotive industry. Although their efficiency rates are lower than those of standard cells and the production volume achieved for these special cells is below the technically feasible level, we receive corresponding compensation payments from our clients for the additional expense and the implementation of individual customer wishes.

Between raw material shortage and booming demand.

The market demand continued to rise in 2005. The expected shortage in the production of high-purity silicon (polysilicon) coincided with the expansion of the production capacities of many manufacturers. However, the delivery of wafer materials we required in 2005 was secured under framework agreements. The high demand for silicon and the limited possibilities for a rapid expansion of capacities resulted in a price increase. Since we had reduced our production costs as a precaution and designed our new plant with a view to optimizing costs, we were able to partially offset the price increases. We continue to select our suppliers with great care as they support our quality philosophy.

2. Solar systems and projects. Once again sales growth in the system business. The solar system business in 2005 was marked by the expectedly high demand. Sales in the solar system segment were only restricted by the availability of solar modules. Due to the limited availability of solar silicon in 2005, a rapid increase of the module production was impossible. The global shortage of solar modules resulted in moderate price increases.

In the past fiscal year, MHH Solartechnik GmbH, Tübingen, the Group company acting as a system house, strengthened its position as a high-quality wholesaler of photovoltaic systems in Germany. It is one of the largest system houses in Germany. A major portion of sales in the system business relates to our system house MHH Solartechnik.

Sales of the modules marketed under the «MHHplus» brand name increased again to 4.8 MWp (2004: 3.2 MWp). With the MHH module, we successfully positioned a quality product in the upper market segment. As of the beginning of 2006, the distribution of modules with Sunways Solar Cells was transferred to Sunways. The modules formerly marketed under the «MHHplus» name have been distributed by Sunways as «Sunways Solar Modules» since early 2006. MHH concentrates on the distribution of purchased solar modules, in particular from the longstanding suppliers Kyocera and SCHOTT Solar, inter alia in combination with the Sunways Solar Inverters.

Sales of solar systems and projects				
	2005		2004	
	k€	%	k€	%
Germany	56,732	97	45,218	99
Rest of Europe	2,019	3	532	1
Rest of world	0	0	4	0
Total	58,751		45,754	

The percentage of the international business increased only slightly against the prior year which was due to the again extremely high domestic demand. International sales were mainly generated in the European neighbor countries (Austria, Switzerland) as well as Spain. Extensive distribution activities will again be undertaken in Austria and Switzerland in 2006 to enhance the international business and to have a good starting position with respect to the growing market in these countries over the next few years.

The marketing of the new Sunways NT series of Solar Inverters started in mid-2003 was successfully continued in 2005. Despite significant excess capacities on the part of inverter manufacturers and a massive price war, the prior year sales figures rose again while the prices of the highly efficient Solar Inverters remained almost stable. We were able to increase the sales volume to 5,349 units (prior year: 4,800 units).

Moderate price increases. The bottleneck situation with respect to available silicon coincided with a booming German market in 2005. The increased raw material prices were partially passed on to customers; prices of solar modules rose slightly. We anticipate a similar development for the year 2006.

Successful production partnerships continued. Sunways AG has concentrated on its core competences since its formation. Therefore, we have no production capacities of our own for inverters and modules but rely on long-term supply contracts with dependable partners. The inverters developed by us in Constance are manufactured by a German cooperation partner in Hungary. Thus we are able to combine high quality with cost-efficient production.

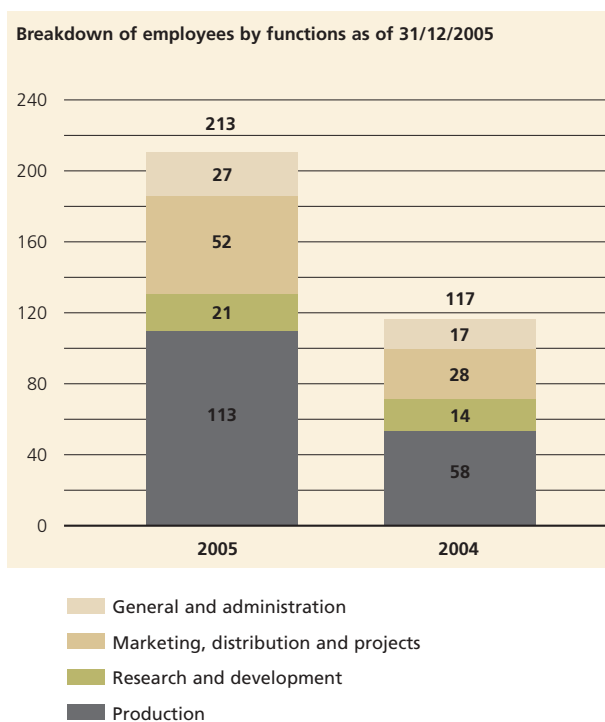
Investments. Investments in fixed assets amounted to € 941 thousand and mainly related to the expansion of our inverter product family.

D. Personnel and social area. Values must be lived – by motivated employees. To be able to implement such values in practical terms and to create innovative products, we make sure that our employees are qualified – our relevant efforts range from professional training to further education measures.

The enthusiasm of our employees is our growth driver. It is also contagious: In 2005, young colleagues were recruited for the first time to fill two trainee positions for industrial clerks. Due to our positive experience, we will increase our commitment in this area.

Increased number of employees. In the wake of the development of Sunways Production GmbH, we were able to attract additional qualified employees in all areas in 2005.

The breakdown of employees by functions as of 31 December 2005 is shown below:



Qualification- and performance-related remuneration system. Our production employees work in four fixed shifts around the clock on seven days a week and are paid in accordance with a qualification- and performance-related remuneration system. This system ensures flexible and efficient production activities.

Share options ensure long-term commitment. In 2005, the successful business development and share price performance for the first time permitted the exercise of options under the employee participation program adopted in the year 2000. 113,000 options were exercised and, correspondingly, 113,000 shares were allotted.

Details are set forth in the remuneration report in connection with our corporate governance activities. Our new employee participation program is being prepared and will be submitted to the 2006 general meeting for approval.

E. Asset, financial and earnings position. The 2005 course of operations forms the basis for the future growth of sales and results. Sunways AG closed the fiscal year 2005 with a positive result despite high capital expenditure for the erection of the new solar cell plant in Thuringia.

Sunways Production GmbH commissioned. The establishment of Sunways Production GmbH was completed as planned at the end of 2005, also with respect to the funding by means of the convertible bonds placed in October 2004 and the loans extended for this purpose in early 2005.

Redemption payments on the long-term bank loans continued as planned.

Consolidated Balance Sheet				
	2005		2004	
	k€	%	k€	%
Assets				
Liquid funds	2,806	4	14,169	35
Other current assets	31,949	44	10,302	26
Fixed assets	34,899	47	12,190	30
Deferred taxes	3,513	5	3,731	9
Total	73,167	100	40,392	100
Liabilities and shareholders' equity				
Current liabilities	19,585	27	11,004	27
Long-term liabilities	26,140	35	13,526	34
Deferred investment grants	10,724	15	0	0
Shareholders' equity	16,718	23	15,863	39
Total	73,167	100	40,392	100

Possible rounding differences.

Positive result despite start-up costs. Sales rose by 36 per cent against the prior year. Consolidated EBIT amounted to € +2.1 million (prior year: € +3.1 million) despite the strong negative impact of the non-recurrent start-up costs relating to the erection of our new solar cell factory. The Arnstadt plant made a contribution of approx. € 6 million to total sales.

Personnel expenses, which rose to € 7,325 thousand (plus 40 per cent), mainly reflected the jobs newly created at Sunways Production GmbH.

The rise in other operating expenses was due to the increase in sales and the planning and formation of Sunways Production GmbH.

Depreciation and amortization increased as a result of the additional investments in recent years and the commissioning of Sunways Production GmbH in the third quarter. The financial result also includes the interest on the convertible bonds and the loans raised in connection with the establishment of the new production plan. Redemption payments on the existing bank loans continued as planned.

The target pursued by Sunways AG's financial management is to provide the Company with liquid funds enabling it to reach its entrepreneurial goals. Generally, the available funding sources include providers of equity, external and mezzanine capital. In the area of external funds, the Company has entered into loan agreements and uses current account credit facilities. As of the balance sheet date, the committed loan amounts were fully disbursed and drawings on the current account facilities granted amounted to approx. 30 per cent.

Consolidated Income Statement					
	2005		2004		
	k€	%	k€	%	
Sales	90,936	97	66,925	103	
Changes in inventories	2,953	3	-2,059	-3	
Gross performance	93,888	100	64,866	100	
Cost of materials	-75,956	-81	-50,596	-78	
Gross profit	17,932	19	14,270	22	
Personnel expenses	-7,325	-8	-5,219	-8	
Other operating expenses and income	-6,222	-7	-4,082	-6	
Earnings before interest, taxes, depreciation and amortization (EBITDA)	4,368	5	4,969	8	
Depreciation and amortization	-2,273	-2	-1,847	-3	
Earnings before interest and taxes (EBIT)	2,113	2	3,122	5	
Financial result	-1,402	-2	-437	-1	
Earnings before taxes (EBT)	711	1	2,685	-4	

Possible rounding differences.

F. Research and development. Technological leadership expanded. The photovoltaics market is highly technology-driven. Sustainable success cannot be achieved in the long term through volumes alone. Since the Company's inception, the Sunways brand distinguished itself by a number of functional developments, innovative production processes and revolutionary ideas. Our policy to develop and produce products, to maximize the benefit and inspire the enthusiasm of customers is continuously expanded through client-oriented product development activities supported by our own research and development department that transforms unconventional ideas into innovative products ready for serial production. An amount equal to about 2.5 percent of our sales is invested in these activities.

In a closed-loop control circuit of experiments, analyses and modifications, we control and optimize the development of new products. Our developments undergo a variety of tests in practical pilot experiments. Basic developments, e.g. in the area of materials, are successfully implemented via close cooperations with national and international research institutes, such as the Fraunhofer Institute for Solar Energy Systems (Fraunhofer Institut für Solare Energiesysteme).

The further development of the Sunways Solar Inverters was one of the focal points of our research and development activities in 2005. In addition to extending the voltage range from 350 to 850 Volt, we added the Sunways Solar Inverter NT 10000, which is highly user-friendly and features a special cooling concept, to the product family. Currently, we are working on a digital inverter that is expected to reach market maturity in early 2007. In 2005, the product family was supplemented by the Sunways Communicator the software of which was especially adapted to our Solar Inverters.

The results of our development activities in the area of transparent solar cells reached market maturity in 2005: Based on a new Transparent Solar Cell, we developed a module to be integrated into buildings. Its homogenous hole structure offers a uniform transparency which is in particularly high demand among builders and architects. Despite its transparency, the efficiency rate reached by the module is only slightly lower than that of standard modules.

Higher yields of solar systems reduce the end customer's energy costs. In the solar cell division, we are, therefore, inter alia working on the improvement of efficiency rates of solar modules. Using solar cells with both electrode contacts on the reverse side is one possibility. We are developing the fundamentals for this together with the University of Constance within the framework of the «PROKON» project.

Within the «RGSells» project, we are working on the development of foil silicon jointly with partners from the industry: To reduce the cost of materials of a module, sheets of multicrystalline silicon are produced in an innovative procedure. The expensive sawing process for the production of wafers from silicon bars is no longer necessary. This results in a significant cost reduction. Additional research is to provide evidence of the saving potential.

In cooperation with Unaxis AG, Sunways AG has been developing solar modules based on thin, amorphous or microcrystalline silicon since 2005. They can potentially generate electricity at a cost below that associated with fossil energy carriers. Thanks to the special technology used at Sunways, the production will not only require less material but also be less expensive and energy-intensive compared to the crystalline technology. In the traditional cell technology, silicon disks having a thickness of one-quarter millimeter are cut from silicon crystals and processed into solar cells. In thin-film technology, by contrast, gaseous silicon is directly applied to the glass pane forming the future module by vacuum evaporation. Therefore, significantly less silicon is required and the number of process steps is reduced markedly. We have set ourselves the goal of bringing this technology to market maturity within two years.

G. Environmental protection. Environmental protection beyond the standards required by law. If one advocates a shift in the energy policy towards renewable energies, one also has to assume responsibility for the eco-friendliness of the production. Therefore, we use state-of-the-art technologies for environmental protection purposes. For example, requirements may be minimized through an advanced chemical supply policy. We already reduced the consumption of chemicals in our wet chemical process by up to 80 percent in 2004.

In 2005, we used our know-how in this area for the planning and construction of our new subsidiary, Sunways Production GmbH. Thus we are able to significantly reduce costs.

H. Risk report

1.1 Overall risk. In an overall assessment of the risk situation of the Sunways Group, it was found that such risks are limited and controllable and do not jeopardize the Group's continuation. From today's point of view, there is also no indication of any risks jeopardizing the Group's continuation in the future.

1.2 Economic framework conditions. Overall economic development. Due to the generally anticipated economic recovery mainly in Germany, we do not expect any massive risks to result from the overall economic development in 2006. A potential further increase in oil prices affecting the economic development will even further improve the sales prospects of photovoltaic products.

Currency risk. A rise in the rate of exchange of the Euro will raise the prices of export products for consumers outside Europe. Thus sales may decrease or price declines may result in a deterioration of margins. However, due to the insignificant portion of sales generated outside Europe, this does not constitute a major risk at present.

A rise in the exchange rate of the US-dollar will raise the purchases prices of raw material (silicon) and may result in an increase of the production cost of solar products. To the extent that these price increases cannot be passed on to customers, this will cause margins to decline. In the event of a further increase of purchases in US-dollars, this risk may be reduced by entering into currency hedging transactions.

Changes in framework conditions. The focus of Sunways' business activities is on the production of solar cells as well as the sale and installation of photovoltaic products. The Company, therefore, is dependent on the overall development in this market segment. The overall development may be particularly affected by framework conditions which generally cannot be influenced by the Company. These framework conditions also include the Renewable Energies Act (Erneuerbare Energien Gesetz – EEG), state promotion programs for the installation and operation of solar equipment, e.g. in the form of grants, low-interest loans or tax concessions. Changes in these as well as in overall economic framework conditions may cause customers or potential customers of Sunways to reduce or postpone their investments in the Company's products and services.

Competition in the photovoltaics market. Competition in the photovoltaics market may further intensify, in particular, if the projected strong market growth does not occur. Business combinations, the market entry of new, larger competitors or a market consolidation may have a negative impact on revenues and margins of the industry and Sunways.

Development of new technologies. The crystalline photovoltaics technology presently used by us is considered leading from a technological as well as from an economic point of view. However, innovative thin-film technologies are currently being developed and may become more important in the future and thus gain market share. The Sunways Group has entered into various cooperations with enterprises as well as national and international research institutions in order to actively participate in the development of such technologies.

1.3 Performance-related risks. Ensuring high product quality. The high quality of our solar cells, which is reflected by the high average efficiency rate and high optical quality, has a crucial effect on the sales prospects of our products. Therefore, variations in the quality of the production process may have a material impact on the financial position and results of operations of Sunways AG. Product risks are taken into account by taking corresponding quality assurance measures. These include the certification of our activities pursuant to DIN EN ISO 9001:2000, the ongoing improvement of our facilities and processes as well as the development of new products and their improvement.

Dependence on customers. Worldwide there is a growing but still relatively small sales market for the solar cells produced by the Company. Therefore, Sunways AG has only a small circle of customers in the solar cell production sector. In the fiscal year 2005, sales to the ten largest customers accounted for approximately 90 percent (prior year: almost 100 percent) of total sales in this business segment. In this context, one should, however, bear in mind that in 2005 a growing portion of the solar cells was processed into MHH modules and subsequently sold via the Group's own system house, MHH Solartechnik GmbH, Tübingen. In the solar systems and projects area, sales with the ten largest customers accounted for approximately 40 percent (prior year: 77 percent) of total sales. Sales in this segment are generated with a markedly larger number of customers.

Dependence on suppliers. As a manufacturing company, Sunways AG is subject to the risks of the supply market. This will become relevant if the raw materials required for the manufacture of our products are not available in an adequate amount or quality.

We currently purchase the silicon wafers from which we produce our solar cells from a small number of major suppliers. Even though there are practically unlimited amounts of silicon, in the form of quartz sand, on earth and the Company has largely contractually secured the wafers expected to be necessary to meet its production capacity in 2006, the loss of one of its suppliers could have an adverse effect on its production capacity and thus on the financial position and results of operations of Sunways AG.

1.4 Personnel risks. The performance of employees is essential for the growth and development of the Sunways Group. We are in an intensifying competition with other companies for highly qualified specialists and executives. We have created an extensive package to secure our staff potential: attractive tasks, development prospects, further education opportunities, performance-related remuneration as well as an employee participation program to have our employees take part in the Company's success.

1.5 Information technology risks. We use modern hardware and software to control potential risks in the IT area. The Sunways Group has integrated, uniform IT infrastructures throughout the Group, back-up systems as well as virus and access protection.

1.6 Financial risks. The business of the Sunways Group is subject to currency, interest rate fluctuation, credit and price risks. Due to the minor importance of foreign currency transactions, the Company currently does not actively hedge its currency positions. Interest rate fluctuation risks are largely controlled by financing the necessary working capital at matching maturities.

Financial risks are monitored on a centralized basis in the finance division of the Group headquarters and hedged as far as necessary. From today's point of view, there is no indication of any liquidity risks. Potential fluctuations of cash-flows are identified at an early stage within the framework of the liquidity planning. The Company has adequate liquid funds and existing credit facilities to offset any such fluctuations.

The Company received public subsidies to finance its capital expenditure. The subsidies granted amount to approx. € 5.4 million. They are scheduled to be disbursed in 2006 and 2007. The disbursement of such funds is subject to their being available at or being budgeted by the institutions granting such subsidies. Therefore, there is a risk of a delay in payment or non-payment of such subsidies.

Country risks are scrutinized beforehand through corresponding analyses and the corporate strategy is adjusted to potential changes in framework conditions on a regular basis.

The credit risk with respect to our investments is minimized by only entering into transactions with banks and business partners with excellent credit standing. Payment transactions are also handled via such banks.

The Company handles potential risks relating to accounts receivable with the aid of a stringent management of accounts receivable, credit investigations, by granting credit limits and categorizing risks at an early stage. There were no major losses of accounts receivable in the past years. Nevertheless, accounts receivable may be subject to collectibility risks with respect to individual clients.

1.7 Other risks. Research and development. Due to the significant complexity and uncertainty involved in the research for new technologies, there is a risk that projects are not continued or that newly developed products are not successfully launched in the market. To minimize this risk, there are intensive cooperations with national and international research institutes as well as potential customers.

Legal risks. To manage the potential risks that may arise from the various tax, competition, patent, cartel and environmental regulations and laws, the decisions of Sunways AG and the design of its business processes are based on extensive legal advice from its own experts as well as from recognized external specialists.

Sunways has high losses carried forward from prior years and plans to use them in the future for the on-going tax optimization. Changes in law, in particular in Germany, may restrict or even eliminate this scope for maneuver in the future. External tax audits may result in additional risks.

2. Risk management system in accordance with § 91, subparagraph 2 of the Stock Corporation Act (AktG).

2.1 Targets. Existing risks should be identified as soon as possible within the framework of the risk management in order to minimize losses from operations and avoid any risks jeopardizing the Company's continuation through adequate measures.

2.2 Instruments. The reporting system is of special importance with respect to monitoring and controlling the economic risks from our current operations. It ensures that all relevant risks arising in the course of operations are identified. The information required for the reporting system are compiled and condensed via an integrated, company-wide ERP system (enterprise resource planning). The data are made available at short notice. The reporting system is supplemented by monthly internal reporting to ensure that the Management Board and the various management levels are informed in due time and in depth of any risks. The controlling and EDP divisions additionally increase the efficiency of the reporting system.

The Company differentiates between strategic and operational risks. Among the strategic risks, the customer and supplier structures have been currently determined to be the most significant. To control and manage these risks, Sunways keeps in steady contact with its customers and suppliers in order to identify changing market conditions and requirements as early as possible. In addition, the efforts to reduce the risks in these areas were continued in the year under review by broadening the client as well as the supplier base.

In the area of operational risks, the focus was mainly on the production risk. In this sector, the Company has installed an extensive controlling system which permits the ongoing comparison of the quantities produced with the targeted quantities and an early adjustment of any variations. In addition, the quality controls at individual stages were integrated into an extensive quality control system. Thanks to this system, it is possible to widely supervise and control production quality, beginning with the inspection of ingoing shipments, via an ongoing quality check at the individual stages of the production process. The relevant information is made available at short notice to the Management Board and the employees in charge.

Our quality management system certified in August 2004 meets all requirements of the DIN EN ISO 9001:2000 standard, ensures regular working processes and, in addition, helps to consistently improve the quality of our products and services and to reduce costs.

J. Value-oriented corporate management. The management and control of the Sunways Group are based on a value-oriented management system focusing on the continuous and sustainable increase of the Company's value. To this end, a controlling concept is used that permits the targeted control and coordination of all segments, supports decentralized responsibility and ensures interdisciplinary transparency. This requires high-quality strategic operative reporting systems – for the calculation of actual and projected figures as well as for internal and external reporting purposes. Our reporting system is based on the data determined in accordance with IFRS for each reporting unit.

The Sunways controlling concept integrates strategic and operative elements into its current reporting. The strategic focus is discussed by a core team composed of employees of the production, distribution, development and controlling units and submitted to the Management Board for decision. The major strategic goals with the relevant priorities and corresponding sub-targets are set forth in our quality management manual certified in accordance with DIN EN ISO 9001:2000 which has been made available to all executive employees. It represents the guidelines for all persons in charge on a decentralized level. The operative elements of the controlling concept are largely based on the monitoring of economically relevant key figures in the individual business divisions.

In the solar cell business division, all important key figures describing the production process in economic terms are monitored on an ongoing basis. The compilation of operating data is supported by an integrated system. Major control data are the overall production output, expressed in watt peak, and the reject rate. Both data are compared to the projected figures at short notice and the relevant variations are analyzed.

To detect potential price fluctuations on the procurement side, in particular the prices of wafers, the raw material for the solar cell production, are monitored on an ongoing basis. We have agreed on corresponding price escalation clauses with a large number of our major customers.

With respect to new products, Sunways applies a method certified pursuant to DIN EN ISO 9001:2000 according to which all relevant data from the product development, distribution and production divisions are compiled. This is largely an assessment of the price and sales volumes, the investment expenditure and development costs. The controlling division supplements these data by the necessary calculations as well as an assessment of opportunities and risks. On the basis of these data and taking into account additional strategic issues, the Management Board decides on the introduction of new products.

The solar systems division comprises the inverter and module trading as well as the project business. Taking into account detailed fixed cost planning, the gross margin and sales volume as well as tied up working capital are monitored and plan variations are analyzed on an ongoing basis. Based on the current order backlog, a new databank system is presently being developed which will permit optimum reporting.

K. Supplementary report. We have been developing our own distribution organization for photovoltaic systems since January 2006 and have initially expanded our product range to include solar modules. «Sunways Solar Module» is the new name of a successful product: Solar modules with integrated Sunways Solar Cells were previously distributed under the name of «MHH plus» by the Sunways subsidiary MHH Solartechnik GmbH. Since 2002, the solar cells produced by Sunways have been integrated into this module according to the specifications of our subsidiary MHH. The product features, tight performance tolerances and high energy yields attracted broad interest within a short period of time and resulted in the module's substantial success. While in the future MHH will increasingly concentrate on the distribution of modules and components of other manufacturers as well as continue to offer the Sunways Solar Inverter, Sunways AG will from now on sell on its own the modules with integrated Sunways Solar Cells. They are produced according to our specifications by a renowned German module manufacturer. The customer can purchase a complete photovoltaic system with optimally adjusted Sunways products from a single source. The combination of the Sunways Solar Inverter NT and the Sunways Solar Module turns into hard cash for the system's operator: His system will generate the best possible yields. The service concept is supplemented by a technical hotline.

In February 2006, we entered into an exclusive contract with Webasto AG on the supply of solar cells for the automotive industry and thus laid the foundations for a promotion-independent market entry. The exclusive contract with a two-year term relates to the delivery of solar cells to be integrated into car roofs for the automotive industry by Webasto AG. In 2006, this contract will generate a sales volume of approx. € 5 million. The quality standards of the automotive industry are the highest with respect to solar cells and relate to dimensional accuracy and consistent color and processing quality. Sunways AG is currently the only company worldwide that delivers solar cells for the automotive industry.

On 16 February 2006, the Management Board of Sunways AG, with the consent of the Supervisory Board and on the basis of the authorization pursuant to § 5 of the Articles of Incorporation, resolved to increase the Company's share capital from € 9,627,070.00 to 10,578,476.00 through the issuance of 951,406 ordinary bearer shares with full dividend rights as from the fiscal year 2005, excluding the preemptive rights of the existing shareholders in accordance with § 186, subparagraph 3, sentence 4 of the Stock Corporation Act (AktG). The capital increase was successfully placed with institutional investors in Germany and abroad on that same day and was several times oversubscribed. The gross proceeds of the issue aggregating approx. € 19 million will be used for strategically securing the supply of wafers constituting the raw material for the production of solar cells in order to establish a stable and safe basis for the further growth of Sunways.

L. Prognosis report. The demand for renewable energies will increase markedly and consistently. On the one hand, the global energy consumption is rising continuously and fossil fuels are diminishing while the awareness of the problem is growing – not least as a result of rising electricity costs. On the other hand, the course is set for an increased use of regenerative energy sources on a national as well as international level: Technological innovations make in particular solar energy an attractive alternative that is efficient and profitable. And last but not least, manufacturers along the solar value added chain are adapting to the growing demand. The possibilities offered by photovoltaics have not yet been exploited – progress in manufacturing and new technologies will result in further cost reductions.

Sunways AG has already prepared its repositioning in 2005 to take account of current market developments in the long term: Our Constance production plant is flexible and can respond to customer wishes. Therefore, under the motto «High-tech made to measure», we concentrate on the production of colored and transparent special cells for the automotive industry at our Constance location. Sunways Production GmbH in Arnstadt produces «High-tech in series»: The high-quality solar cells produced here in large numbers will help the solar cell segment generate consistently positive results through the realization of economies of scale.

We expect these restructurings and our new system distribution organization to strengthen the customer and supplier relations of Sunways AG and our subsidiary MHH Solartech-nik GmbH as well as to expand our market position: The Sunways brand will increasingly be placed with customers, also in the area of systems technology. The even closer contact with our customers will provide us with the feedback we need to further develop and optimize our products.

In 2005, we created a new dimension for Sunways AG. Sunways Production GmbH will make its first positive contribution to the Company's result in the first quarter of 2006. We will not rest and expect to add thin-film modules to our product portfolio from 2008 onwards as well as to develop new target groups for Sunways AG. The project emphasizes our striving for technological leadership in a technology-driven market.

Our distribution office in Barcelona/Spain will expand its position in the growing Southern European market, mainly in Spain. Due to our increased production capacities, we will be able to respond more strongly to international demand in the future; we will, however, distribute the major part of our production in the German market in order to consistently expand our long-term customer relations in the world's strongest market.

At a time where raw materials are rare, we are also striving to further optimize our production process and to generate higher yields from less silicon – while simultaneously keeping up the quality of our solar cells. We have secured our raw materials supply for 2006 through an intelligent mix of framework agreements and procurement in the spot market. In 2006, we expect to experience a price increase below that of 2005.

To ensure our silicon supply, we are expanding our partnerships and considering various strategic options. Depending on the availability of raw materials, another expansion of our capacities will be planned responsibly, in a targeted and controlled manner and as a matter of conviction.

We are consistently expanding our product portfolio: Currently we are developing a family of sister products to the successful transformerless Solar Inverter NT series. This device will be especially adapted for operation with thin-film modules and also permit greater flexibility thanks to its broad voltage range. The «all-in-one» concept will be further expanded to include internet-enabled communication equipment. This innovation will be available in early 2007.

The supply contract entered into with Webasto AG in February 2006 once again demonstrates that we focus on the delivery of high-quality customer-specific solar cells. These deliveries are independent of any promotion of the solar market and thus offer a great potential.

In 2006, our earnings will experience a stronger percentage growth than sales during that same period. The amount of the rise in earnings will be crucially affected by the development of prices for the raw material silicon.

We will again contribute towards making Germany the leading nation in the photovoltaics area.





Ladies and gentlemen, dear shareholders, in the past fiscal year Sunways AG took important steps for the future.

To continue to be successful in the dynamically growing photovoltaics market, the Company will increasingly pursue its operative and strategic growth targets. As one of the technological leaders and a creative market shaper in the solar segment, Sunways will continue to set milestones in the future.

In 2005, the Supervisory Board closely observed the Company's development in constant dialogue with the Management Board. The obligation of each individual member of the Supervisory Board to contribute his capabilities and experience to ensure economic success is rooted in the way we see ourselves. For each of us this involves a substantial degree of personal commitment and discipline. This is indispensable for a company like Sunways that operates economically efficient with a lean management, focusing on strategic and operational tasks.

The Supervisory Board not only performs its statutory control functions but also considers itself an advisor and provider of ideas, seeking to give valuable impetus to the Company. With this in mind, the Supervisory Board for example constructively supported the transformation of the distribution organization and the reassignment of responsibilities between Sunways AG and MHH Solartechnik GmbH.

The consistent growth of Sunways AG also continued in 2005. The signals at the political level inspire optimism. The new German federal government has expressed its support for renewable energies and other EU nations, such as for example Spain, a special geographic focus of Sunways, also copy the successful German model.

Meetings and focal points. In the fiscal year 2005, the Supervisory Board held four ordinary and three extraordinary meetings. The Management Board, verbally as well as in writing, informed the Supervisory Board in due time and at length about matters of corporate planning and strategy, business developments and the situation of the Group as well as its risk position and risk management. Also outside Supervisory Board meetings, the chairman of the Supervisory Board remained in close contact with the Management Board and was informed about current business developments and important business transactions. The Company's strategic focus was discussed and agreed upon within the Supervisory Board. All business transactions of importance to the Group were addressed in detail by the Supervisory Board on the basis of the reports provided by the Management Board.

All measures and transactions requiring the approval of the Supervisory Board were addressed at the meetings of the Supervisory Board. The issues discussed in the past fiscal year included in particular the timely commissioning of the new production line in Arnstadt/Thuringia during the course of the year and the related expansion of production capacities, securing the supply of raw silicon and the start of thin-film technology activities in cooperation with Liechtenstein-based Unaxis AG.

The ongoing information on sales and earnings developments at Sunways AG and its Group companies was also a regular element of the meetings. The financial and investment planning was discussed in detail. The issues addressed within the Supervisory Board also included the Group's further development and the Supervisory Board's efficiency control.

Composition of the Supervisory Board. The general meeting on 19 May 2005 elected Thomas Nordmann to the Supervisory Board as successor to Franz Heim. Thomas Nordmann – one of the Swiss solar pioneers – has been active in the area of development, application and implementation of solar energy since 1974. He is one of the renowned photovoltaic experts in the German-speaking area and has an excellent overview of the technological and economic development of photovoltaics worldwide thanks to his participation in international gremia.

Committees of the Supervisory Board. The audit committee of the Supervisory Board held three meetings in the fiscal year 2005. In addition to accounting and risk management issues, strategic matters were addressed as well. Furthermore, the Supervisory Board established a committee for Management Board affairs. This committee is composed of Dr. Roland R. Bahr, Heinz W. Bull and Ernst Haug. The committee is responsible for the expansion of the Company's management structure, in particular in the areas of technology and finance but also marketing and distribution, and held a total of two meetings. Intense and trusting talks within the committee and Supervisory Board as well as with the sole Management Board member aimed at adapting the management structure, including the filling of important Management Board positions, to the targets set for subsequent years.

Corporate governance and compliance statement. The Supervisory Board addressed the regulations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex), in particular the modifications in the version dated 02 June 2005. To control the compliance with the German Corporate Governance Code, the Supervisory Board verified the implementation of the recommendations at Sunways AG. The Supervisory Board and Management Board made the annual compliance statement pursuant to § 161 of the Stock Corporation Act (AktG). Thus both executive bodies expressly emphasized the obligation to ensure a transparent, responsible and value-added oriented management and control of the Company. The compliance statement is also permanently made available on the internet page of Sunways AG.

Audit of the financial statements and consolidated financial statements for the fiscal year 2005. The general meeting appointed WPG AG, Tübingen, as auditors and Group auditors for the fiscal year 2005. Following the assignment by the Supervisory Board, they audited the financial statements of Sunways AG, the consolidated financial statements and the management report for Sunways AG and the Sunways Group for the fiscal year 2005, including the accounting and risk identification system, and in each case gave their unqualified opinion.

The documents relating to the financial statements, the appropriation of profit proposed by the Management Board as well as the auditors' audit reports were delivered to the members of the Management Board in due time upon completion and discussed at length by the audit committee as well as by the entire gremium.

The auditor participated in the balance sheet meeting on 07 March 2006 and reported in detail on the focal points and major results of the audit. He also provided supplementary information to the members of the Supervisory Board.

Following its own verification, the Supervisory Board confirmed the result of the auditors' audit. No objections had to be raised. Based on the final result of the examination by the audit committee and the entire Supervisory Board, the Supervisory Board approved of the financial statements and consolidated financial statements drawn up by the Management Board at the balance sheet meeting on 07 March 2007. Thus the financial statements of Sunways AG for the fiscal year 2005 were adopted. The Supervisory Board confirmed the appropriation of retained earnings proposed by the Management Board.

The Supervisory Board would like to express its thanks to all employees and Management Board member Roland Burkhardt for their commitment in 2005. In addition to the day-to-day business, the burdens associated with the future-oriented projects – in particular the new production line in Arnstadt, the start of thin-film technology activities and ensuring the long-term supply of raw silicon – placed tremendous demands on all persons involved. Sunways AG will continue to pursue its sound growth path and to position itself as one of the pioneers and technological leaders in the photovoltaics growth market.

We would also like to thank our shareholders who, through their investment, demonstrated their trust in our Company.

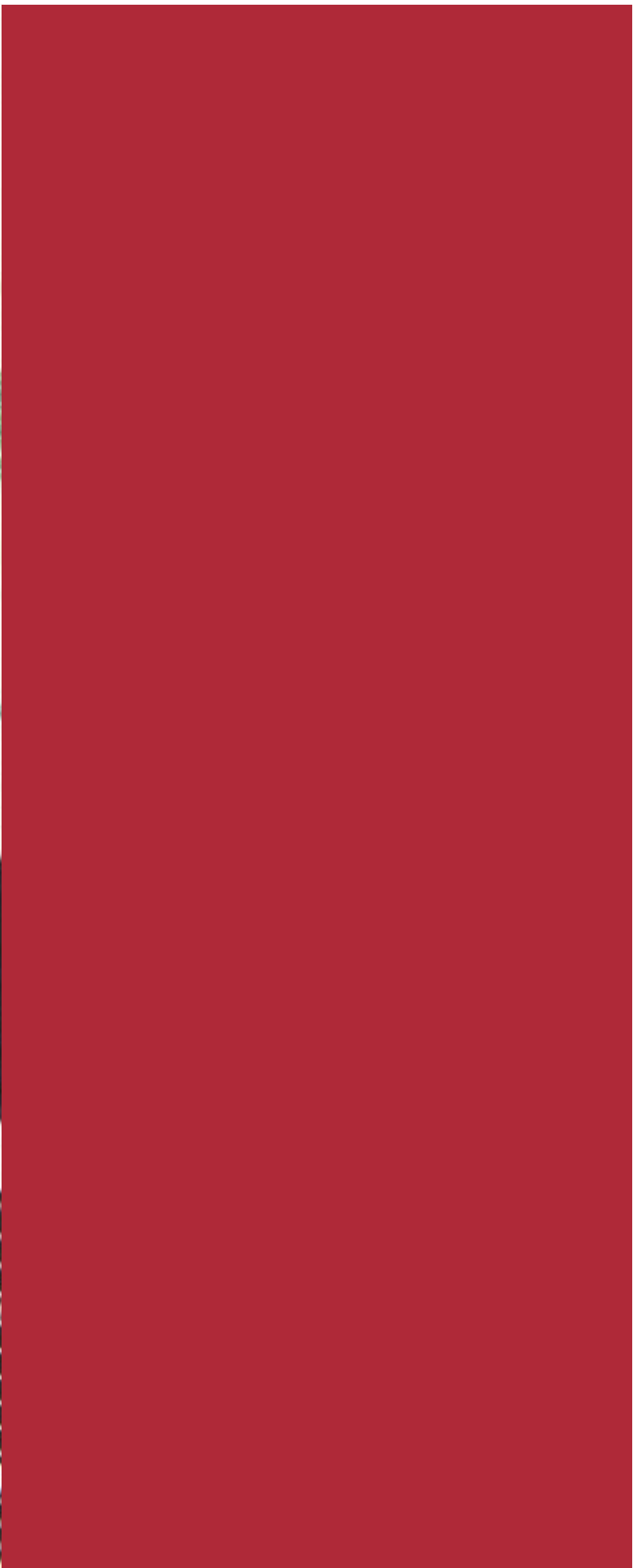
The Supervisory Board will continue to closely cooperate with the Management Board so that Sunways AG will remain one of the leading companies for investors interested in sustainability, employees and business partners.

Constance, March 2006



Dr. Roland R. Bahr
Chairman of the Supervisory Board





Corporate Governance. Compliance statement pursuant to § 161 of the Stock Corporation Act (AktG) relating to the German Corporate Governance Code (Deutscher Corporate Governance Kodex – CGK), as amended on 02 June 2005

The Management Board and Supervisory Board of Sunways AG declare that the recommendations of the «Government Commission of the German Corporate Governance Code», as amended on 02 June 2005 and published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, have been complied with since the last compliance statement made in March 2005 and will be complied with in the future, with the exception of the recommendations set forth below:

a. Publication of documents on the internet. The Company will publish the agenda and individual details relating to the general meeting on its internet page. There are no plans to publish on the internet all reports and documents required for the general meeting under the legal provisions (item 2.3.1 of the Code).

b. Deductible with respect to D & O insurance. No deductible has been agreed upon with respect to the D & O insurance taken out by Sunways AG for the members of its Management Board and Supervisory Board (item 3.8 of the Code).

c. Number of Management Board members. The Management Board of Sunways AG is composed of one member (item 4.2.1 of the Code).

d. Management Board remuneration. The Management Board remuneration will be disclosed in the notes to the consolidated financial statements with a breakdown by fixed and variable amounts. However, the relevant figures will not be specified on an individualized basis (item 4.2.4 of the Code).

e. Remuneration to Supervisory Board members. Sunways AG pays no profit-related remuneration to the members of the Supervisory Board. Committee chairmanships and memberships were not reflected in the remuneration. The remuneration is not specified on an individualized basis in the Corporate Governance report pursuant to item 3.10 of the Code (item 5.4.7 of the Code).

f. Corporate Governance reporting. The Company will draw up its first Corporate Governance report for the fiscal year 2006 (item 3.10 of the Code).

Constance, 01 March 2006

The Management Board

The Supervisory Board

Remuneration Report

Management Board and Supervisory Board remuneration systems. Benchmarks for the remuneration systems of the Management Board and Supervisory Board have been determined by the German Corporate Governance Code (Deutscher Corporate Governance Kodex). Consequently, the remuneration is to be composed of fixed and variable components. The variable components are to be closely linked to the Company's success and thus constitute a long-term incentive.

The remunerations of the Management Board and Supervisory Board of Sunways AG are in line with these principles through variable elements linked to the Company's performance and result. For further motivation, the share option plan constitutes an additional remuneration instrument for the executives and Management Board of Sunways AG.

Performance-related remuneration for the Management Board. In fiscal year 2005, the Management Board was composed of Roland Burkhardt, Dipl.-Ing. (FH), Kreuzlingen. The remuneration of the Management Board includes a non-profit-related fixed salary payable on a monthly basis as well as a profit-related component. The structure of the Management Board's remuneration system is reviewed by the Supervisory Board at regular intervals.

The remuneration of the Management Board in 2005 amounted to € 173 thousand, consisting of a fixed remuneration of € 153 thousand and a performance-related variable component for which a provision of € 20 thousand was established.

Under the employee share option plan (see below), share option rights may be issued to the Management Board. Details relating to shareholdings and outstanding options are set forth in the notes to the consolidated financial statements (annual report).

Supervisory Board. Members of the Supervisory Board in the fiscal year 2005 were:

- Dr. jur. Roland R. Bahr, chairman, Radolfzell
- Otto Mayer, deputy chairman, Tübingen
- Heinz W. Bull, Constance
- Ernst Haug, Constance
- Franz Heim, Tübingen, until 31 January 2005
- Thomas Nordmann, Erlenbach (Switzerland), since 19 May 2005
- Frank Wehking, Hofheim/Taunus

In derogation of the Code, the members of the Supervisory Board of Sunways AG only receive a fixed remuneration of € 8 thousand for their membership. The chairman receives € 16 thousand. The remunerations paid by the Company to the members of the Supervisory Board and amounts paid for personally performed services are specified on a non-individualized basis. The remuneration does not take into account any committee memberships and chairmanships.

One of the Supervisory Board members received € 54 thousand for consulting services in 2005. The total remuneration to the Supervisory Board of Sunways AG for the year under review amounted to € 56 thousand.

Employee share option plan. As an additional incentive and for the long-term attraction of qualified employees, the Company has established an employee participation program in the year 2000. For details reference is made to the notes to the consolidated financial statements, section «J».

Consolidated Financial Statements (IFRS)



  *sunways*

www.sunways.it

Consolidated Balance Sheet as of 31 December 2005

	Notes	31/12/2005	31/12/2004
		k€	k€
Assets			
Current assets			
Liquid funds	C.1.	2,330	13,114
Marketable securities	C.2.	476	1,055
Trade receivables	C.3.	6,450	3,644
Inventories	C.4.	12,937	5,437
Prepayments and accrued income and other current assets	C.3.	12,562	1,221
Total current assets		34,755	24,471
Tangible fixed assets	C.5.	33,046	10,713
Intangible assets	C.6.	1,571	1,235
Financial assets	C.7.	62	20
Goodwill	C.6.	220	222
Deferred taxes	C.8.	3,513	3,731
Total assets		73,167	40,392
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans and current portion of long-term loans	C.10.	3,925	756
Trade payables	C.9.	10,687	7,959
Prepayments received		140	69
Provisions	C.10.	1,570	1,460
Income tax payable	C.10.	0	287
Other current liabilities	C.10.	3,263	473
Total current liabilities		19,585	11,004
Long-term liabilities			
Bonds	C.11.	9,697	9,618
Long-term loans	C.11.	15,706	3,256
Deferred taxes	C.8.	737	652
Total long-term liabilities		26,140	13,526
Deferred investment grants	C.12.	10,724	0
Shareholders' equity			
Subscribed capital	C.13.	9,627	9,514
Capital reserve	C.13.	15,160	14,650
Accumulated profit/loss		-8,069	-8,302
Total shareholders' equity		16,718	15,863
Total liabilities and shareholders' equity		73,167	40,392

Possible rounding differences.

Consolidated Income Statement for the Fiscal Year 2005

	Notes	01/01 to 31/12/2005	01/01 to 31/12/2004
		k€	k€
Sales	D.1.	90,936	66,925
Changes in inventories of finished and unfinished goods		2,953	-2,059
Gross performance		93,888	64,866
Other operating income	D.2.	482	275
Cost of materials		-75,956	-50,596
Personnel expenses		-7,325	-5,219
Depreciation and amortization	D.3.	-2,273	-1,847
Other operating expenses	D.4.	-6,703	-4,357
Operating result (EBIT)		2,113	3,122
Interest income/expenses	D.5.	-1,402	-437
Result before taxes		711	2,685
Taxes on income	D.6.	-360	-1,132
Consolidated net income/loss		351	1,553
Earnings per share/€ (diluted = undiluted)		0.04	0.16
Average number of shares outstanding		9,578,466	9,514,070

Possible rounding differences..

Changes in Shareholders' Equity from 01 January to 31 December 2005

	Subscribed capital	Provisions	Profit/loss brought forward	Total
	k€	k€	k€	k€
01 January 2004	9,514	14,328	-9,855	-13,987
Revaluation of marketable securities		75		75
Equity component convertible bonds		248		248
Net income			1,553	1,553
31 December 2004	9,514	14,650	-8,302	15,863
31 December 2004 / 01 January 2005	9,514	14,650	-8,302	15,863
Exercise of share options	113	306	0	419
Exercise of share options pursuant to IFRS 2		204	-118	85
Net income			351	351
31 December 2005	9,627	15,160	-8,069	16,718

Possible rounding differences.

Consolidated Cash-Flow Statement for the Fiscal Year 2005

	01/01 to 31/12/2005	01/01 to 31/12/2004
	k€	k€
Operating activities		
Operating result (EBIT)	2,113	3,122
Adjustments for:		
Income tax receivable/payable (-)	-57	49
Depreciation and amortization	2,273	1,847
Book gains (-)/losses from disposal of fixed assets	-6	112
Income/expenses not affecting cash	-83	
Operating result before changes in net current assets	4,240	5,130
Changes in assets and liabilities		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-3,254	-2,287
Increase (-)/ decrease in inventories	-7,500	974
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	5,412	5,416
Cash provided by operating activities	-1,102	9,233
Investment activities		
Purchase of fixed assets	-24,993	-6,042
Cash provided by the disposal of fixed assets	17	0
Cash used for investment activities	-24,976	-6,042
Financing activities		
Cash provided by/used for (-) bonds	0	9,618
Cash provided by/used for (-) long-term bank loans	12,450	-779
Cash provided by/used for (-) short-term bank loans	3,169	-490
Contributions to subscribed capital and capital reserves	419	323
Cash provided by/used for (-) interest payments	-1,322	-290
Cash proved by/used for (-) financing activities	14,716	8,381
Net increase/decrease (-) of liquid funds	-11,362	11,573
Cash and cash equivalents at the beginning of the reporting period	14,169	2,597
Cash and cash equivalents at the end of the reporting period	2,807	14,170
Composition of liquid funds at the end of the reporting period		
Marketable securities	476	1,055
+ Cash	2,330	13,114
	2,807	14,170

Possible rounding differences.

Notes to the Consolidated Financial Statements (IFRS) of Sunways AG, Constance, as of 31 December 2005 (Notes)

A. General information, preparation principles and premises

Sunways Aktiengesellschaft has its registered office in Constance, Germany, and is recorded in the Commercial Register B of the Constance local court (Amtsgericht) under number 1661. The purpose of the Company is to develop, manufacture and trade in objects for the utilization of solar energy and related technologies, including accessories. The Company may establish branch offices at home and abroad, establish and purchase other companies or take a stake in them and enter into inter-company agreements with them. The focus of the Sunways Group, on the one hand, is on the business area of production and distribution of solar cells based on mono- and polycrystalline silicon. Another business segment comprises the production and distribution of solar inverters as well as the distribution of photovoltaic systems connected to the network (solar systems).

Sunways AG, Constance (hereinafter «Sunways AG» or the «Company») has prepared consolidated financial statements for the fiscal year 2005. The consolidated financial statements were prepared in accordance with § 292a of the Commercial Code (HGB) in compliance with the International Financial Reporting Standards (IFRS).

The consolidated financial statements are based on uniform accounting and valuation principles. Use is made of the framework principles and the individual International Accounting Standards (IFRS/IAS) applicable as of the balance sheet date. Similarly, the interpretations of the Standing Interpretations Committee (SIC) applicable as of the balance sheet date are taken into account. Effective as of 01 January 2006, the framework principles were amended. These amendments have not been complied with in these financial statements. The amendments are, however, currently not expected to result in any material accounting or valuation changes.

Compliance of the consolidated financial statements with the 7th EU Directive is based on the interpretation of the directive in accordance with the German Accounting Standard No. 1 (DRS 1).

The consolidated financial statements have been prepared in whole thousands of Euros. For this reason, rounding differences are possible.

Individual items of the consolidated balance sheet and the consolidated income statement have been combined to improve the clarity of presentation.

The annual financial statements of the companies included in the consolidated financial statements were prepared as of the date of the consolidated financial statements in accordance with uniform accounting and valuation principles.

B. Information on consolidation scope and methods

1. Consolidation scope. In addition to Sunways AG as the parent company, the following companies in which Sunways AG directly holds the majority of voting rights and exercises uniform management, were included in the consolidated financial statements as of 31 December 2005:

Company	Registered office	Shareholders' equity as of 31/12/2005/k€	Equity interest as of 31/12/2005/%
Sunways Production GmbH	Arnstadt, Germany	4,097	100
MHH Solartechnik GmbH	Tübingen, Germany	564	100

Sunways Production GmbH was newly founded in 2004. The enterprise is active in the area of development and manufacture of solar cells and has a production site in Arnstadt commissioned in the last quarter 2005. In the first development stage, the production capacity is approximately 30 MWp.

The activities of MHH Solartechnik GmbH, Tübingen, (hereinafter «MHH») mainly focus on the distribution of solar systems as well as the planning and implementation of large solar projects.

The 33.3 percent equity stake in Beteiligungsanlage für Solarstrom Villingen-Schwenningen Theater am Ring GbRmbH was not included in the scope of consolidation due to its minor importance.

2. Consolidation methods. Capital consolidation is performed using the book value method. The acquisition costs of the investment are offset against the proportional book value of its shareholders' equity at the time of initial inclusion in the consolidated financial statements. Until the fiscal year 2004, the resulting goodwill has been capitalized and written off using the straight-line method over an estimated useful life of 5 years. Due to the first-time application of IFRS 3, scheduled amortization was no longer reported in the fiscal year 2005. The amortization accumulated up to 01 January 2005 was directly offset against the initial acquisition cost. The value of the remaining capitalized goodwill was assessed. No revaluation was required in 2005.

Material inter-company profits and losses, sales and expenses and income as well as the receivables and payables existing between the consolidated companies have been netted. The results of inter-company services have been eliminated.

Deferred taxes have been recorded with respect to consolidation procedures to the extent that any difference in tax expenses is expected to be offset in subsequent years.

C. Notes to the consolidated balance sheet.

1. Liquid funds. Liquid funds are carried at nominal value. The development of liquid funds, which form the financial resources in accordance with IAS 7, is shown in the cash-flow statement.

2. Marketable securities. All marketable securities are carried at their market values. In case of any difference between the market value as of the balance sheet date and the acquisition cost, unrealized gains and losses are reported in the income statement in accordance with IAS 39 affecting income. The unrealized valuation losses reported in the income statement in 2005 affecting the result amounted to € 29 thousand.

3. Trade receivables, other assets and prepayments and accrued income.

	31/12/2005	31/12/2004
	k€	k€
Trade receivables	6,450	3,644
Other assets and prepayments and accrued income	12,562	1,221
Total	19,012	4,865

Possible rounding differences.

Other assets include accounts receivable in the amount of € 2,741 thousand with a remaining term to maturity of more than one year. The remaining receivables and other assets have a remaining term to maturity of less than one year. Prepayments and accrued income include discounts of € 20 thousand.

Trade receivables are recorded at their nominal value. Sufficient account has been taken of default risks by way of allowances. Such allowances amounted to € 136 thousand as of 31 December 2005. Actual losses of outstanding receivables were € 42 thousand in 2005. Other assets and prepayments and accrued income are carried at nominal value. They mainly relate to claims to government subsidies (€ 10,916 thousand), short-term loans (€ 750 thousand), capitalized transaction costs in connection with the issue of convertible bonds (€ 335 thousand), tax refunds (€ 218 thousand) as well as prepaid insurance premiums and contributions (€ 130 thousand).

With respect to government subsidies, reference is made to the details set forth under C.12. Receivables in foreign currencies are translated in accordance with IAS 21.21 at the rate prevailing on the transaction date and subsequently valued at the rate as of the balance sheet date in accordance with IAS 21.23. No substantial foreign currency receivables existed on the balance sheet date.

4. Inventories.

	31/12/2005	31/12/2004
	k€	k€
Raw materials and supplies	6,237	1,538
Work in progress	1,967	404
Finished goods and merchandise	4,733	3,495
Total	12,937	5,437

Possible rounding differences.

As a rule, inventories are carried at their acquisition or production costs.

In addition to directly attributable prime costs, the production costs also include all attributable overhead, including adequate depreciation of production installations. Financing costs have not been capitalized since the direct correlation requirement in accordance with IAS 23.11 has not been met.

Insofar as necessary, inventories were recorded at the lower realizable net sales value.

No reinstatement of original values was necessary in the reporting period.

5. Tangible fixed assets. Tangible fixed assets are carried at acquisition or production cost less scheduled and, where appropriate, unscheduled depreciation. Financing costs are not capitalized in accordance with IAS 23.7.

Tangible fixed assets are written off over the economic useful life. The useful life is between two and ten years for technical equipment as well as furnishings and fixtures. The useful life of buildings is 33 1/3 years. Account is taken of material residual values in the determination of depreciation. Maintenance costs are recorded directly as expenses.

No positions pursuant to IAS 17.8, i.e. «finance leases», existed in the reporting period. Major additions, with respect to land, buildings and technical equipment, relate to the erection of a new plant for the production of solar cells in Arnstadt and, in the area of technical equipment, to additional installations for the solar cell production unit in Constance. In the area of furnishings and fixtures, the additions relate essentially to EDP hardware, communication equipment and other office equipment.

There were no major disposals during the reporting period.

Changes in tangible fixed assets in 2005 are shown in the consolidated changes in fixed assets.

6. Intangible assets. Intangible assets purchased are carried at acquisition costs plus expenses incidental to acquisition. In accordance with their useful lives, they are reduced by scheduled depreciation using the straight-line method. Unscheduled depreciation is carried where necessary. The useful life of licenses is between 4.5 and ten years. Until 31 December 2004, goodwill from capital consolidation was amortized using the straight-line method over a useful life of 5 years affecting income. Due to the first-time application of IFRS 3, scheduled amortization of goodwill was no longer reported in the fiscal year 2005. The value of the remaining capitalized goodwill was assessed. No revaluation was required in 2005.

In addition to goodwill from capital consolidation, the goodwill item includes goodwill with respect to Ingenieurbüro für Solartechnik, Constance, acquired in 1996 (€ 11 thousand).

Pursuant to IAS 38, development costs for new products as well as the further development and improvement of production procedures were capitalized in the amount of € 669 thousand in the reporting period. The full amount of such capitalized development costs relates to the further development of and additions to the NT Solar Inverter product family.

The valuation is performed in accordance with IAS 38, subparagraphs 65 et seq. The cost of external funding is not included. The capitalized costs attributable to the relevant projects on an individual basis are depreciated from the start of their commercial use. Amortization is effected over the estimated useful life of generally five years; in 2005 such amortization amounted to € 357 thousand. Other additions primarily relate to EDP software. No material disposals were recorded in the period under review.

Changes in intangible assets in 2005 are shown in the consolidated changes in fixed assets.

7. Financial assets. The following equity interests were held as of the balance sheet date:

Company	Registered office	Shareholders' equity as of 31/12/2005/k€	Equity interest as of 31/12/2005/%
Beteiligungsanlage für Solarstrom GbRmbH	Villingen-Schwenningen, Germany	n. n.	33.3
Solarcomplex GmbH	Singen, Germany	958	5.22

The valuation was in each case based on acquisition costs.

Changes in financial assets in 2005 are shown in the consolidated changes in fixed assets.

8. Deferred tax assets and liabilities. In general, deferred taxes are created for all material timing differences between the commercial and tax balance sheet at the level of the individual companies as well as in the consolidated financial statements pursuant to IAS 12. As of 31 December 2005, there were the following differences:

	Deferred taxes as of 31/12/2005			Deferred taxes as of 31/12/2004		
	Difference	Assets	Liabilities	Difference	Assets	Liabilities
	k€	k€	k€	k€	k€	k€
Inventories	252	96		51	19	
Prepayments and accrued income	416		-159	424		-161
Intangible assets	1,220		-462	908		-344
Marketable securities	0		0	2		-1
Equity component convertible bonds	302		-116	382		-146
Losses brought forward	-13,843	5,260		-14,618	5,555	
Write-off of losses brought forward prior to 2001		-1,843			-1,843	
Total		3,531	-737		3,731	-652

Possible rounding differences.

Deferred taxes on losses brought forward were calculated at a tax rate of 38 percent insofar as they had not been used by 31 December 2005. Additional account was taken of differences between losses carried forward for corporate income tax and for trade tax purposes at a rate of 11 percent. There were deferred tax assets on prior year losses carried forward in the amount of € 3,417 thousand (prior year: € 3,712 thousand) as of 31 December 2005. As in the previous year, deferred taxes on losses carried forward from fiscal years prior to 2001 were written off in full.

9. Liabilities. As a rule, liabilities are recorded at their repayment amount. On the balance sheet date, there were liabilities to banks secured by liens in the amount of € 18,608 thousand (transfer by way of security of fixed assets, assignment of trade receivables, transfer by way of security with respect to storage space, undertaking with respect to the disposition of licenses).

10. Short-term liabilities and provisions. Short-term loans relate to the current portion (due within one year) of long-term bank loans and current account liabilities. The average interest rate on short-term liabilities to banks is approximately 5.8 percent.

Trade payables are exclusively to other enterprises.

Other liabilities include mainly sales tax, wage tax and church tax as well as social security contributions.

Income tax payable includes trade and corporate income tax payable under the minimum profit taxation.

Other provisions take into account all identifiable obligations in respect of third parties in accordance with IAS 37.

	01/01/2005	Withdrawals	Reversals	Additions	31/12/2005
	k€	k€	k€	k€	k€
Personnel expenses	398	398	0	645	645
Invoices received and outstanding	577	577	0	581	581
Warranties	246	221	25	120	120
Annual report	20	20	0	20	20
Remuneration to the Supervisory Board	58	52	0	56	62
Costs of financial statements and audit	44	44	0	50	50
Other	117	25	0	0	92
Total	1,460	1,337	25	1,472	1,570

Possible rounding differences.

Liabilities in foreign currencies are translated as of the exchange rate prevailing on the transaction date pursuant to IAS 21.23 and any exchange rate differences are recorded affecting income. There were no material foreign currency liabilities as of the balance sheet date.

11. Long-term liabilities. On 15 October 2004, the Company issued convertible bonds. The aggregate nominal amount of € 10,000 thousand is represented by 100,000 bonds of € 100 each ranking pari passu with each other. The bonds bear interest at a rate of 7 percent per annum on their nominal amount. The date of final maturity is 15 October 2009. The convertible bonds may be redeemed by the Company upon no less than 30 and no more than 60 days' notice from 01 July 2007. The bonds may be converted from the fourth business day after the annual general meeting 2006 until 15 October 2009. A nominal amount of € 100 may be converted into 20 shares. The conversion price is € 4.85 per share. The proceeds of the convertible bond issue were divided into a debt and equity component. The equity component reflects the fair market value of the inherent option to convert such debt into equity.

	31/12/2005	31/12/2004
	k€	k€
Nominal amount of the convertible bonds issued	10,000	10,000
Equity component (net of deferred taxes)	-236	-248
Deferred tax liability	-146	-152
Debt component as of 01 January	9,618	9,600
Interest expense	79	17
Debt component as of 31 December	9,698	9,618

Possible rounding differences.

Long-term loans relate to long-term liabilities to banks for the financing of capital goods. The average interest rate on long-term liabilities to banks is approximately 3.9 percent. Other long-term loans as of 31 December 2005 include a typical silent partnership interest of Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH («MBG»). The silent partnership interest of € 1,021 thousand was agreed upon in a contract dated 26 February 1999.

The silent partnership has a term up to 30 June 2008. MBG primarily receives a progressive fixed interest rate over the term ranging from 2 percent to 7 percent per annum as well as an additional profit-related remuneration which is limited to 9 percent p.a.

12. Deferred investment grants. Deferred investment grants relate to government subsidies in connection with the erection of the new solar cell production plant of Sunways Production GmbH in Arnstadt, Thuringia. The item covers funds granted under the Investment Grant Act (Investitionszulagengesetz) 2005 (€ 5,466 thousand) as well as funds relating to the Common Task «Improvement of the regional economic structure – Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur (GA)» (€ 5,427 thousand) extended by Thüringer Aufbaubank. The deferred item will be amortized affecting income over the expected useful life of the subsidized assets. Income from the amortization of this deferred item amounted to € 169 thousand in 2005.

The relevant claims are capitalized at the nominal amount under «other assets».

13. Shareholders' equity: Share capital. As of 31 December 2005, the Company's share capital amounted to € 9,627,070, divided into 9,627,070 non-par value shares to bearer with a notional share in the total share capital of € 1.00 each.

Authorized capital. By resolution of the ordinary general meeting of 06 May 2004, this authorized capital was cancelled and a new authorized capital in the amount of € 4,757,035.00 was created. The Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital by up to € 4,757,035.00 through the issuance of up to 4,757,035.00 non-par value shares to bearer for cash and/or in-kind contributions on one or more occasions by 05 May 2009 (authorized capital).

With the consent of the Supervisory Board, the Management Board will decide on an exclusion of pre-emptive rights and determine the details of the issuance of such new shares. The exclusion of pre-emptive rights is permitted, in particular, to

- exclude share fraction amounts from the pre-emptive rights of shareholders,
- issue shares against contributions in kind, in particular in connection with business combinations or the acquisition of companies or parts thereof or interests therein,
- implement cash capital increases for up to a total of ten per cent of the Company's share capital, provided the issue price of these new shares is not substantially lower than the price at which the Company's shares are traded.

Conditional capital. Pursuant to a resolution of the general meeting held on 20 December 2000, a conditional capital of € 400 thousand was created to satisfy option rights under the Company's employee participation program. During the reporting period, a portion of € 113 thousand of this amount was used for the exercise of share options.

So far, a total of 296,600 share options were issued of which a total of 113,000 were exercised during the reporting period. 92,900 unexercised share options still existed as of 31 December 2005. 90,700 options have lapsed up until now. By resolution of the general meeting on 6 May 2004, an additional conditional capital (conditional capital II) of € 4,357,035 was created, while the existing 2003 conditional capital (§5, subparagraph 4 of the articles of incorporation) was simultaneously cancelled. The Management Board was authorized, with the consent of the Supervisory Board, on one or more occasions and by 05 May 2009, to issue bearer or registered convertible bonds and/or bonds with warrants in an aggregate nominal amount of up to € 30,000 thousand with a maturity of no more than 20 years and to grant to the holders conversion or option rights for shares in Sunways Aktiengesellschaft having a pro rata share in the total share capital of up to € 4,357,035 as provided for in detail in the conditions of issue of the convertible bonds or bonds with warrants.

As of 31 December 2005, convertible bonds in an aggregate principal amount of € 10,000 thousand were issued. The conversion rights granted in connection with the convertible bonds entitle to subscribe for shares in a total amount of € 2,000 thousand.

Capital reserve. An amount of € 306,486.00 was appropriated to the capital reserve in the period under review. The amount resulted from the issuance of new non-par value shares to bearer having a pro rata share in the total share capital of € 1.00 each at an average issue price of € 3.71 in connection with the exercise of share option rights.

D. Notes to the consolidated income statement

The income statement was prepared using the total cost method.

1. Sales. With respect to the breakdown of sales, reference is made to the details set forth under «E. Segment reporting».

2. Other operating income. Other operating income was mainly generated from the provision of state aid for research projects included in expenses (€ 195 thousand), the amortization of deferred investment grants (€ 169 thousand), the reversal of provisions (€ 25 thousand), the proceeds of fixed asset sales (€ 20 thousand) as well as from offsetting remunerations in kind (€ 22 thousand).

3. Depreciation and amortization. The breakdown of depreciation and amortization by asset types is shown in the consolidated changes in fixed assets. Due to the first-time application of IFRS 3, scheduled amortization of goodwill from capital consolidation was no longer reported in the fiscal year 2005. There was no non-scheduled depreciation and amortization during the period under review.

4. Other operating expenses. Other operating expenses include mainly premises and operating costs as well as administrative and distribution costs.

5. Interest income/expenses. This item includes interest income in the amount of € 87 thousand (prior year: € 233 thousand). Interest and similar expenses amount to € -1,489 thousand (prior year: € -670 thousand). This item includes exchange losses and similar expenses of € -42 thousand (prior year: € -149 thousand) as well as additional interest expenses relating to the debt component of the convertible bonds in the amount of € -80 thousand.

6. Taxes on income. Tax expense includes corporate income tax and trade income tax. The corporate income tax rate, including solidarity surcharge, was 26.38 percent, the average trade tax rate was approximately 17 percent. Trade tax is deductible in the determination of the corporate income tax. The tax burden in the year 2005 was approximately 38 percent. In 2005, taxes on income were € 58 thousand (prior year: € 287 thousand). Deferred tax liabilities amounted to € 302 thousand (prior year: tax assets of € 845 thousand). Deferred taxes were recorded in accordance with IAS 12 with respect to differences of accounting and valuation of the companies included in the consolidated financial statements as well as for consolidation measures affecting the result and losses carried forward. Deferred tax liabilities and assets are set forth in the table below:

	2005	2004
	k€	k€
Tax loss carryforwards	-294	-858
Transaction costs – convertible bonds	34	-161
Intangible assets	-118	144
Structural expense – financing	-31	0
Additional interest expense – convertible bonds	30	6
Marketable securities	1	27
Inventories	76	-3
Deferred tax assets (+)/liabilities (-)	-302	-845

Possible rounding differences.

The determination of deferred taxes was based on a tax rate of 38 percent. The reconciliation of the fictitious tax expense with the actual tax expense is shown below:

	k€	k€
Earnings before taxes	704	-267
Prior year taxes		-36
Non-deductible expenses		-35
Minimum taxation (trade tax)		-22
Tax expense reported in the income statement		-360

Possible rounding differences.

7. Development costs. The development costs recorded as expenses in the fiscal year 2005 amounted to € 2,086 thousand (prior year: € 1,495 thousand) of which € 998 thousand (prior year: € 736 thousand) related to personnel expenses and € 434 thousand (prior year: € 544 thousand) to depreciation and amortization, including amortization of the development costs capitalized in prior years (€ 357 thousand; prior year: € 486 thousand). The remaining amount accounted for other operating expenses, in particular consulting fees, travel expenses and general administration expenses.

E. Segment reporting

The following segment reporting shows a breakdown of the Company's business activities by the two major segments of solar cells (development, production and distribution of solar cells) and solar systems (development, production and distribution of inverters as well as distribution and project services for solar systems).

	2005			Total	2004			Total
	Solar cells	Solar systems	Consolidation		Solar cells	Solar systems	Consolidation	
	k€	k€	k€	k€	k€	k€	k€	k€
Sales	32,370	58,751	-185	90,936	21,705	45,754	-534	66,925
EBITDA	-39	4,418		4,379	521	4,448		4,969
Depreciation & amortization	-2,010	-263		-2,273	-1,534	-313		-1,847
EBIT	-2,049	4,155		2,106	-1,013	4,135		3,122
Segment assets	65,215	7,952		73,167	33,084	7,308		40,392
Segment liabilities*	40,936	4,789		45,725	20,641	3,889		24,530
Investments	24,052	941		24,993	5,872	214		6,086

* Excluding deferred investment grants.
Possible rounding differences.

The activities of Sunways AG are focused on Germany. A geographic breakdown of sales is shown below:

	2005				2004			
	Solar cells	Solar systems	Consolidation	Total	Solar cells	Solar systems	Consolidation	Total
	k€	k€	k€	k€	k€	k€	k€	k€
Germany	31,203	56,732	-185	87,750	18,904	45,218	-534	63,588
Rest of Europe	777	2,019		2,796	2,550	532		3,082
Asia	390	0		390	250	4		254
America	0	0		0	1			1
Total	32,370	58,751	-185	90,936	21,705	45,754	-534	66,925

Possible rounding differences.

F. Changes in shareholders' equity

The development of the Company's shareholders' equity in the past fiscal year is set forth in the table «Changes in shareholders' equity 2005».

G. Earnings per share

	2005	2004
Result for the year/Thousands of €	351	1.553
Number of shares (weighted)	9,578,466	9,514,070
Earnings per share/€	0.04	0.16

The figures presented correspond to undiluted earnings per share within the meaning of IAS 33 («basic earnings per share»). As the calculation of diluted earnings does not result in any material changes, no figures are presented in accordance with IAS 33. In connection with a capital increase, the Company issued 951,406 new shares effective as of 16 February 2006. Thus the number of outstanding shares increased to a total of 10,578,476. Reference is made to our comments under «I». The Management Board and Supervisory Board propose not to distribute any dividend for the year 2005.

H. Notes to the consolidated cash-flow statement

The consolidated cash-flow statement shows how the Group's cash changed over the course of the reporting year as a result of the inflow and outflow of funds. In accordance with IAS 7 (Cash-Flow Statements), a distinction is made between cash-flows from operating, investing and financing activities. The liquidity shown in the cash-flow statement includes cash in hand, checks, cash in banks and marketable securities.

I. Subsequent events.

1. Capital increase on 16 February 2006. The Company implemented a capital increase on 16 February 2006. A total of 1,121,406 ordinary bearer shares were placed with institutional investors in Germany and abroad by means of an accelerated bookbuilding. The new shares were largely created in a capital increase resolved by the Management Board of Sunways AG with the consent of the Supervisory Board. Excluding the pre-emptive rights of the existing shareholders, the Company's share capital was increased from € 9,627,070 to € 10,578,476 through the issuance of 951,406 new ordinary bearer shares with full dividend rights as from the fiscal year 2005. In addition, major shareholders Roland Burkhardt (Management Board member) and Otto Mayer (Supervisory Board member) made available 150,000 shares in connection with an over-allotment option. Another 20,000 shares formerly held by Otto Mayer were placed with other investors. The offered shares were made available by way of a securities lending transaction.

The Company received funds of approx. € 18.5 million from this capital increase. The inflow of such funds will enable the Company to strategically ensure the supply of wafers used as raw material for the production of solar cells. Thus the further growth of Sunways AG will have a sound and secure basis.

2. Conclusion of a framework supply contract with Webasto AG, Stockdorf (Germany).

Sunways AG has entered into an exclusive contract with Webasto AG on the supply of solar cells for the automotive industry. This cooperation will form the basis of a promotion-independent market access. The contract commenced as of 16 February 2006 for an initial term of two years and covers the supply of solar cells to be integrated into car roofs. The sales volume expected to be generated under this contract in 2006 is approx. € 5.0 million. The quality requirements of the automotive industry constitute the most stringent demands made on solar cells. Sunways AG is currently the only enterprise worldwide that supplies solar cells to the automotive industry.

J. Other information

1. Related-party relations. The following persons, groups of persons and companies were deemed related parties as of 31 December 2005: members of the Management Board and Supervisory Board of Sunways AG. No matters arising in the fiscal year 2005 were subject to any reporting requirements.

2. Contingent liabilities. There were no material contingent liabilities as of the balance sheet date.

3. Other financial obligations.

	k€
Due in 2006	603
Due in 2007 through 2010	1,081
Due in 2011 and later	0
Total	1,684

Other financial obligations mainly relate to rental agreements and leasing contracts. The share of obligations under leasing contracts (operating leases) aggregated € 728 thousand and mainly related to machinery and motor vehicles. There were no other material financial obligations under supply contracts entered into as of the balance sheet date.

4. Employees. As of the year-end, Sunways employed a staff of 213, including the members of the Management Board (prior year: 117).

As an additional incentive and for the long-term attraction of qualified employees, the Company has established an employee participation program in the year 2000. Pursuant to a resolution of the ordinary general meeting held on 20 December 2000, a conditional capital of € 400 thousand was created for granting share option rights to the Company's Management Board members and employees and to members of the management and employees of companies associated with the Company within the meaning of §§ 15 et seq. of the Stock Corporation Act (AktG). The Company was authorized to issue up to 400,000 share options to its Management Board members, management members of associated companies and to employees of the Company and companies associated with it. Each option entitles its holder to purchase one share.

120,000 of the options are for Management Board members of Sunways AG, 120,000 are for management members and employees of associated companies and 160,000 are for employees of the Company.

The waiting period for the first exercise of options is two years. Options may be exercised within five years after the expiration of the waiting period, but only between the 5th and 30th working day after the Company's ordinary general meeting.

Options may only be exercised if the closing price for the Company's shares on the last trading day of a calendar year preceding the exercise on the XETRA electronic trading system or any system that may replace XETRA, has risen to a greater degree, in percentage terms, in comparison with the opening price on the first trading day of that calendar year, than the weighted average price of all the shares traded in the Technology-All-Share-Index. The opening price and the closing price determined by Deutsche Börse AG of the Technology-All-Share-Index of the calendar year preceding the exercise in the electronic XETRA trading system or the respective subsequent system serves as the comparative index. In addition,

the options may only be exercised when the price of the share on the electronic XETRA trading system, or the subsequent system, at the time of the exercise is not below the price of the share at the time of the granting of the option.

The exercise price corresponds, subject to § 9, subparagraph 1 of the Stock Corporation Act (AktG), to the average closing price of the Company's shares on the electronic XETRA trading system, or any subsequent system, in December of the year preceding the grant of the option. If, in December of the year preceding the grant of the option, the shares were not quoted, the basis for computing the exercise price is the corresponding average of the closing prices of the shares in the second month following the first quotation of the share on the electronic XETRA trading system or any subsequent system. Subject to § 9, subparagraph 1 of the Stock Corporation Act (AktG), the exercise price is reduced by 30 percent if the increase in the price of the shares has exceeded 50 percent of the increase in the Technology-All-Share-Index of the calendar year preceding the exercise on the electronic XETRA trading system or any subsequent system, and the price of the Sunways share has risen by at least 30 percent between the date of grant and the exercise date. The Company is authorized to adjust the exercise price as well as the basis of calculation of the exercise price accordingly in the event of a capital increase.

No new share options were issued in the reporting period. The following share options were granted as of 31 December 2005:

	Number of outstanding share options 31/12/2004	Number of outstanding share options 31/12/2005	Thereof vested	Total number of share options to be granted
Management Board	40,000	30,000	0	120,000
Employees of the Company	116,600	36,900	3,400	160,000
Managing Directors and employees of associated companies	77,000	26,000	8,000	120,000
Total	233,600	92,900	11,400	400,000

Details relating to the tranches issued so far are shown below:

Tranche	Exercise price (€)	Options granted	Option exercised	Options lapsed	Remaining options	Earliest exercise period	Latest expiration date
2001	10.39	74,100	23,000	41,700	9,400	2005	2006
2002	4.14	70,000	42,000	26,000	2,000	2005	2007
2003	1.75	59,000	48,000	11,000	0	2005	2008
2004	1.91	93,500	0	12,000	81,500	2006	2009
Total		296,600	113,000	90,700	92,900		

A total of 113,000 share options were exercised in the reporting period. Due to the positive share price performance, the exercise price with respect to exercised options granted in 2002 and 2003 was in each case reduced by 30 percent as stipulated in the terms of the options.

Due to the first-time application of IFRS 2, a total amount of € 18 thousand was transferred from profit brought forward to the capital reserve during the year under review with respect to the past fiscal years 2003 and 2004.

In the fiscal year 2005, the total cost reported under personnel expenses with respect to share-based remunerations amounted to € 85 thousand.

5. Executive bodies and their shareholdings. In the fiscal year 2005, the member of the Management Board was:

- Roland Burkhardt, Dipl.-Ing. (FH), Kreuzlingen (Switzerland)

The total remuneration of the Management Board of Sunways AG for the fiscal year 2005 amounted to € 183 thousand (prior year: € 211 thousand), consisting of a fixed remuneration of € 163 thousand (prior year: € 153 thousand) and a performance-related variable component for which a provision of € 20 thousand (prior year: € 58 thousand) was established. In the fiscal year 2005, no options were issued to the member of the Management Board under the employee share option plan.

Members of the Supervisory Board in the fiscal year 2005 were:

- Dr. jur. Roland R. Bahr, chairman, Radolfzell
- Otto Mayer, communication engineer, deputy chairman, Tübingen
- Heinz W. Bull, Dipl.-Kaufmann, Constance
- Ernst Haug, tax consultant, Constance
- Franz Heim, Dipl.-Verwaltungswirt (FH), Tübingen, until 31 January 2005
- Thomas Nordmann, entrepreneur, Erlenbach, (Switzerland), since 19 May 2005
- Frank Wehking, Dipl.-Kaufmann, Hofheim/Taunus

Provisions were made in the amount of € 56 thousand (prior year: € 46 thousand) with respect to the total remunerations of the Supervisory Board of Sunways AG for the fiscal year 2005. The members of the Supervisory Board receive a fixed remuneration. In addition, one member of the Supervisory Board received € 54 thousand for consulting services in the year 2005.

The members of the Supervisory Board of Sunways AG hold the following positions on other supervisory boards:

Heinz W. Bull

- Altana Pharma AG, Constance
- Recordati Spa, Mailand (Italy)
- Tanox Inc., Houston (USA)

Ernst Haug

- Volksbank Konstanz e.G., Constance

Thomas Nordmann

- TNC Consulting AG, Erlenbach (Switzerland)

The following table shows the number of Sunways shares and share options held by the members of the Management Board and Supervisory Board as of 31 December 2005:

	Shares as of 31/12/2005	Options as of 31/12/2005	Shareholding in %
Management Board			
Roland Burkhardt	1,740,345	30,000	18.08
Supervisory Board			
Dr. Roland R. Bahr, chairman	9,902		0.11
Otto Mayer, deputy chairman	760,000		7.90
Heinz W. Bull	0		
Ernst Haug	3,695		0.04
Thomas Nordmann	0		
Frank Wehking	0		

In addition to the above holdings of members of the executive bodies, no other shareholdings are known that would be subject to the reporting requirements under § 21 of the Securities Trading Act (WphG).

6. Auditors' fees. WPG AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, Tübingen, received a fee of approx. € 45 thousand in the past fiscal year for auditing the financial statements of Sunways AG and its subsidiaries. An amount of € 2 thousand was paid with respect to other certification or appraisal services.

7. Statement relating to the German Corporate Governance Code (Deutscher Corporate Governance Kodex – CGK), as amended on 02 June 2005. The statement relating to the Corporate Governance Code required pursuant to § 161 of the Stock Corporation Act (AktG) has been made and submitted to the shareholders.

These consolidated financial statements were released for publication by the Management Board on 07 March 2006.

Constance, 07 March 2006

Roland Burkhardt
Management Board

Changes in Fixed Assets in the Consolidated Financial Statements (IFRS) in the Fiscal Year 2005

	At cost				31/12
	01/01	Additions	Transfers	Disposals	
	k€	k€	k€	k€	k€
I. Tangible fixed assets					
1. Real property and equivalent rights and buildings, including buildings on third-party property	341	1,590	1,855	0	3,785
2. Technical equipment and machinery	9,327	9,787	11,410	0	30,524
3. Other equipment, furnishings and fixtures	1,503	905	80	-44	2,443
4. Prepayments made and plant under construction	4,239	11,859	-13,344	0	2,754
Total	15,410	24,141	0	-44	39,507
II. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets as well as licenses relating to such rights and assets	869	141	0	0	1,010
2. Development costs	1,787	669	0	0	2,456
3. Goodwill	436	0	-198	0	238
Total	3,092	810	-198	0	3,704
III. Financial assets					
Equity interests	20	41	0	0	62
Total	20	41	0	0	62
Total	18,522	24,993	-198	-44	43,272

Possible rounding differences.

Accumulated depreciation and amortization					Book values	
01/01	Additions	Transfers	Disposals	31/12	31/12/2005	31/12/2004
k€	k€	k€	k€	k€	k€	k€
1	12	0	0	13	3,772	339
3,793	1,432	0	0	5,225	25,299	5,534
902	353	0	-33	1,223	1,221	601
0	0	0	0	0	2,754	4,239
4,697	1,797	0	-33	6,461	33,046	10,713
542	117	0	0	659	351	327
878	357	0	0	1,236	1,220	908
214	2	-198	0	18	220	222
1,635	476	-198	0	1,913	1,791	1,457
0	0	0	0	0	62	20
0	0	0	0	0	62	20
6,331	2,273	-198	-33	8,373	34,899	12,190

Auditors' Opinion

We have audited the consolidated financial statements prepared by Sunways AG, Constance, comprising the balance sheet, income statement, changes in shareholders' equity, cash-flow statement and the notes thereto, as well as the management report for the fiscal year from 01 January 2005 to 31 December 2005. The preparation of the consolidated financial statements and group management report in accordance with the IFRS, as applicable within the EU, and the supplementary commercial law provisions applicable under § 315a, subparagraph 1 of the Commercial Code (HGB) is the responsibility of the Company's Management Board. Our responsibility is to express an opinion, on the basis of our audit, on the consolidated financial statements and group management report.

We have conducted our Group audit pursuant to § 317 of the Commercial Code (HGB) in compliance with the German principles of proper auditing determined by the German Institute of Auditors (Institut der Wirtschaftsprüfer – IDW). According to these principles, the audit has to be planned and performed so as to identify with reasonable certainty any inaccuracies and infringements which have a material impact on the presentation of the asset, financial and earnings position in the consolidated financial statements in compliance with the applicable accounting provisions as well as in the group management report. In the determination of the audit procedures, the knowledge of the Group's business activities as well as economic and legal environment and the expectations with respect to potential mistakes are taken into account. In the audit, the efficiency of the accounting-related internal control system as well as the evidence of disclosures in the consolidated financial statements and group management report are largely assessed on a test basis. The audit comprises an appraisal of the annual accounts of the companies included in the consolidated financial statements, the definition of the scope of consolidation, the accounting and consolidation principles applied and the material estimates made by the legal representatives as well as an evaluation of the overall presentation of the consolidated financial statements and group management report. We believe that our audit is an adequate basis for our opinion.

No objections were raised as a result of our audit.

In our opinion and based on the insights gained in the audit, the consolidated financial statements are in conformity with the IFRS, as applicable within the EU, and the supplementary commercial law provisions applicable under § 315a, subparagraph 1 of the Commercial Code (HGB) and, in compliance with these provisions, give a true and fair view of the asset, financial and earnings position of the group. The group management report is in conformity with the consolidated financial statements, gives an overall true and fair view of the group's position and adequately presents the opportunities and risks of future development.

Tübingen, 03 March 2006

WPG Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Albert Reich
Auditor

Kurt Kässmann
Auditor

Statement of Independence

As statutory auditors of the financial statements/consolidated financial statements as of 31 December 2005 and of the management report/group management report for the fiscal year 2005, we make the following representation with respect to our independence:

1. None of the partners of WPG AG and none of our employees involved in this audit holds a direct or indirect interest in Sunways AG. Similarly, WPG AG holds no shares in Sunways AG.
2. None of the partners of WPG AG and none of our employees involved in this audit has any employment or other relationship with Sunways AG affecting his/her independence (e.g. as an asset manager).
3. None of the partners of WPG AG and none of our employees involved in this audit is a member of the Supervisory Board or Management Board of Sunways AG.
4. None of the partners of WPG AG and none of our employees involved in this audit has any family relationship with one of the legal representatives of Sunways AG.
5. None of the partners of WPG AG and none of our employees involved in this audit has been involved in the accounting or preparation of the financial statements/consolidated financial statements beyond the auditing activities within the meaning of §319, subparagraph 3, nos. 1 to 5, as amended, of the Commercial Code (HGB) in conjunction with §319, subparagraph 4, as amended, of the Commercial Code (HGB), also not in the form of consultancy services. Furthermore, WPG AG has not provided any other services conflicting with an auditor's appointment.
6. None of the partners of WPG AG and none of our employees involved in this audit has any functions in connection with the control system introduced at the Company pursuant to § 91, subparagraph 2 of the Stock Corporation Act (AktG), in particular in the performance of the internal audit.
7. To the best of our knowledge, there are no other relations or aspects that might affect our independence with respect to Sunways AG.
8. The Supervisory Board has agreed with the auditors that the chairman of the Supervisory Board will be informed immediately of any potential reasons for termination or partiality arising during the audit unless remedied without delay.
9. No additional consultancy services have so far been agreed upon for the year 2006.

In addition, we represent that no former partners or employees of WPG AG involved in the audit of Sunways AG over the last three years are legal representatives of Sunways AG.

A (gross) fee of € 45 thousand is expected to be invoiced for the audit. An amount of approximately € 9 thousand thereof relates to the subsidiary in which Sunways AG holds a majority interest.

We would like to point out that no obligations of Sunways AG will arise and no claims against WPG AG may be derived from this representation.

We would like to express our thanks for the trust placed in us.

With kind regards,

Tübingen, 23 February 2006

WPG Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Albert Reich
Auditor

Kurt Kässmann
Auditor

Executive bodies

Management Board

Roland Burkhardt
Dipl.-Ing. (FH), Kreuzlingen (Switzerland)

Supervisory Board

Dr. jur. Roland R. Bahr, chairman
Attorney, Radolfzell

Otto Mayer, deputy chairman
Entrepreneur, Tübingen

Heinz W. Bull
Managing Director of ALTANA Innovationsfonds GmbH, Constance
Other supervisory board memberships:
ALTANA Pharma AG, Constance
Recordati Spa, Milan (Italy)
Tanox Inc., Houston (USA)

Ernst Haug
Tax consultant, Constance
Other supervisory board memberships:
Volksbank Konstanz e.G., Constance

Franz Heim, until 31 January 2005
Entrepreneur, Tübingen

Thomas Nordmann, since 19 May 2005
Entrepreneur, Erlenbach (Switzerland)
Other supervisory board memberships:
TNC Consulting AG, Erlenbach (Switzerland)

Frank Wehking
Diplom-Kaufmann, Hofheim / Taunus

Information and Communication



Glossary

Carbon dioxide (CO ₂)	Odorless, invisible gas composed of carbon and oxygen. An increased concentration of carbon dioxide in our atmosphere is caused by the utilization of fossil energy carriers and contributes to climatic warming.
Cashflow	Inflow/outflow in liquid funds within a reporting period
Convertible bond issue	Means of capital increase; a type of bond that entitles the holder to convert the bond into shares during the term of the issue at a predetermined ratio. If this option is not exercised, the bonds are redeemed by the company at maturity.
Earnings per share	The profit after taxes generated by a company within a certain period is divided by the average number of shares issued by that company.
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBT	Earnings before taxes
Efficiency rate	Ratio of energy output and energy input
Equity ratio	Shareholders' equity as a percentage of total funds; (shareholders' equity : total funds) x 100
IAS	International Accounting Standards; internationally accepted accounting practices
IFRS	International Financial Reporting Standards
Kilowatt hour (kWh)	Measuring unit of electric energy; energy is defined as power multiplied by time (kWh = kW x h). A power plant with a capacity of 150 megawatts generates 1,500 MWh in ten hours; a 60-watt bulb (0.06 kW) consumes 0.6 watts in 10 hours.
MW/MWp	Abbreviation for megawatt/megawatt peak
Photovoltaics (PV)	Generation of electricity from sunlight
Regenerative/renewable energies	Also referred to as renewable energies; opposite: fossil energy sources such as oil and natural gas, brown and hard coal. This term refers to continuously renewing energy sources that are thus available in the long term: solar energy, biomass, geothermal energy, water and wind power.
Renewable Energies Act (Erneuerbare Energien Gesetz – EEG)	The law took effect on 01 April 2000. It regulates the purchase and prices of electricity generated from renewable energies. Energy supply companies are obliged to pay a fixed price for electricity won from regenerative energies. The amended EEG took effect upon publication in the Federal Law Gazette (Bundesgesetzblatt) on 01 August 2004.

Result per share	Consolidated net income divided by the weighted number of shares
Silicon	Chemical element won from the raw material silicon oxide (sand) which is processed into monocrystalline, polycrystalline or amorphous silicon
Solar cell	Electronic component that converts sunlight into electric energy
Solar inverter	Converts the direct current of solar cells into alternating current in conformity with the power supply system
Solar module	Connection of several solar cells that are enclosed in a weather-proof capsule and form the basic module for photovoltaic systems
Sustainability	Sustainable management means: to reconcile ecology and economy so that the requirements of currently existing people may be satisfied without jeopardizing the satisfaction of the requirements of future generations. A sustainable development to a large extent depends on the innovation strength of the economy and society, i.e. the ability to implement sustainability-focused social and technological innovations.
Wafer	Semiconductor slice, approximately 0.2 to 0.5 millimeters thick, used for the production of solar cells
Watt peak (Wp)	Output in watts under standard conditions (constant insulation, optimal operating temperature)
Working capital	Current assets less current liabilities; that portion through which short-term loans are covered by current assets; the higher the working capital, the more secure the liquidity position
100,000 Roofs Program	Until 30 June 2003, the program promoted the construction of solar systems throughout Germany.

Corporate calendar 2006

15 May 2006	Publication of financial data for the 1st quarter (January – March)
18 May 2006	General meeting in Constance
14 August 2006	Publication of financial data for the 2nd quarter (April – June)
14 November 2006	Publication of financial data for the 3rd quarter (July – September)
15 November 2006	Analysts' conference in Frankfurt/Main

In 2006, we would like to invite you for an exchange of opinions at the following trade exhibitions:

08 – 10 March 2006	«20. Symposium Photovoltaische Solarenergie» in Bad Staffelstein (Germany)
27 – 29 April 2006	«Solarexpo – International Exhibition and Conference on Renewable Energy» in Vicenza (Italy)
22 – 24 June 2006	«Intersolar» in Freiburg (Germany)
04 – 08 September 2006	«21st European Photovoltaic Solar Energy Conference and Exhibition» in Dresden (Germany)
05 – 07 October 2006	«III Feria Energia Renovable» in Almeria (Spain)
24 – 28 October 2006	«Matelec – Salón Internacional de Material Eléctrico y Electrónico» in Madrid (Spain)

Sources

- ¹ Currently, silicon is produced by seven companies worldwide. The most active enterprises in the area of solar silicon are Hemlock (USA), Wacker (Germany) and Tokuyama (Japan). In 2005, they produced approx. 11,000 t of polysilicon, more than 33,000 t are projected for 2010.
- ² «Ausbau erneuerbarer Energien im Stromsektor bis zum Jahr 2020», BMU, www.bmu.de.
- ³ Informationskampagne für Erneuerbare Energien, www.unendlich-viel-energie.de; Bundesverband Erneuerbarer Energien, www.bee-ev.de.
- ⁴ Unternehmensvereinigung Solarwirtschaft, November 2005.
- ⁵ «Solar Photovoltaic Market Report», Solarbuzz, 2005.
- ⁶ «Sun Screen», Credit Lyonnais Securities Asia, 2005; «Branchenanalyse Photovoltaik», Landesbank Baden-Württemberg, 2005; «Boombranche Photovoltaik», DB Research, 2005; «Solar Generation», EPIA/Greenpeace, 2005.
- ⁷ «Sun Screen», Credit Lyonnais Securities Asia, 2005; «Boombranche Photovoltaik», DB Research, 2005; «Nachhaltigkeitsstudie – Solarenergie 2005», Bank Sarasin & Co, 2005.
- ⁸ «PV Status Report 2005», Arnulf Jäger-Waldau, European Commission, August 2005.
- ⁹ «Nachhaltigkeitsstudie – Solarenergie 2005», Bank Sarasin & Co, 2005: «Trends in Photovoltaic Applications», IEA (International Energy Agency), September 2005; «PV Status Report 2005», Arnulf Jäger-Waldau, European Commission, August 2005.
- ¹⁰ www.feed-in-cooperation.org
- ¹¹ «Trends in Photovoltaic Applications», IEA (International Energy Agency), September 2005; «Sun Screen», Credit Lyonnais Securities Asia, 2005; In der Studie «Boombranche Photovoltaik», DB Research, 2005, the analysts anticipated 40 percent on the average for the years 2006 through 2010.
- ¹² Verband der Elektrizitätswirtschaft (VDEW), August 2005.
- ¹³ «Erneuerbare Energien in Zahlen», page 23, Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit, Berlin, June 2005.
- ¹⁴ Communication from the Commission, «The support of electricity from renewable energy sources», December 2005.
- ¹⁵ «PV Status Report 2005», Arnulf Jäger-Waldau, European Commission, August 2005.

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This annual report is also available in the German language. In addition, you may find our annual and quarterly reports as well as current information on the internet at www.sunways.de.

Imprint

March 2006

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Sunways AG, Management Board

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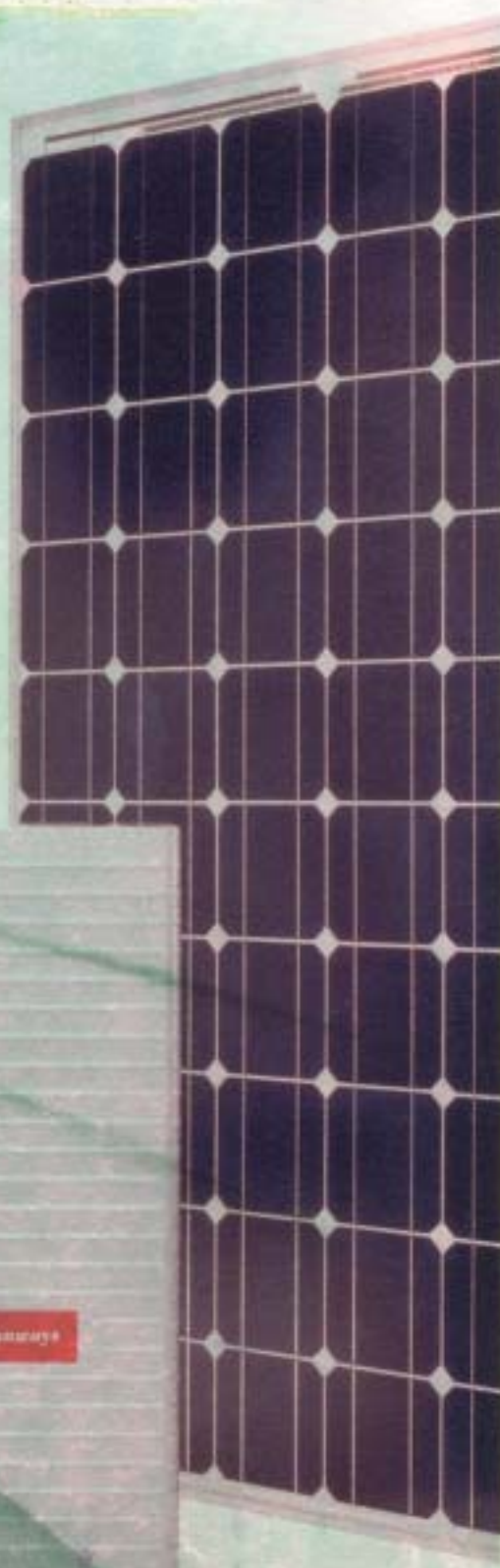
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