

Annual Report **2004**



Sunways Business Divisions



Sunways Solar Cells

Solar cells capture the light and convert it into electric energy. Sunways develops and produces cells on the highest technological level that are integrated into the solar modules of many renowned manufacturers. The mono- and multicrystalline Sunways Solar Cells have the highest efficiency rates among solar cells. The Transparent Sunways Solar Cell is particularly suited for façade integration.



Sunways Solar Inverters

The inverter, the heart of the solar system, is required to convert the direct current generated by the solar cells into alternating current in conformity with the power supply system.

Sunways Solar Inverters NT with the HERIC® technology achieve the highest efficiency rates in Europe of up to 97 % and have received several innovation and design awards.



Solar systems and projects

Our subsidiary, MHH Solartechnik GmbH, Tübingen, is focused on the distribution of solar systems and modules with Sunways Solar Cells as well as Solar Inverters.

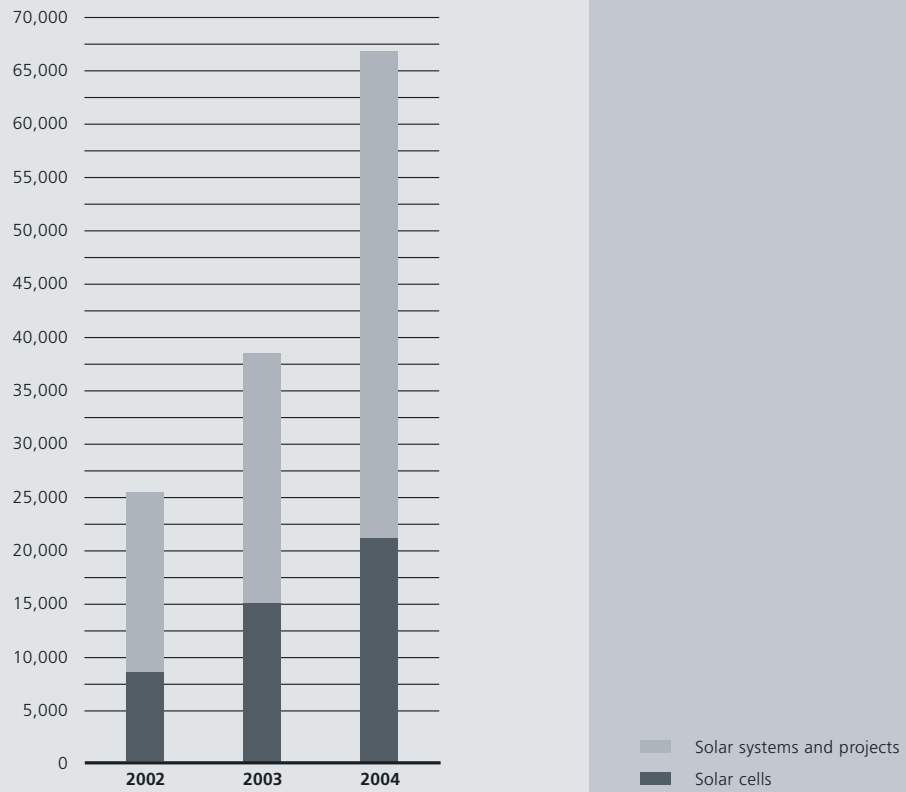
The employees have long-standing experience in the area of planning and implementation of complex projects.

At a glance

	2004		2003		2002	
	Millions of €	%	Millions of €	%	Millions of €	%
Consolidated income statement						
1. Sales	66.9	103	38.7	105	25.8	94
Changes in inventories	-2.0	-3	-2.0	-5	1.7	6
2. Gross performance	64.9	100	36.8	100	27.5	100
Cost of materials	-50.6	-78	-30.2	-82	-22.3	-81
3. Gross margin	14.3	22	6.6	18	5.2	19
Other operating income	0.3	0	0.9	2	0.7	3
Personnel expenses	-5.2	-8	-4.6	-13	-3.9	-14
Other operating expenses	-4.4	-7	-3.5	-3	-2.6	-9
4. EBITDA	5.0	8	-0.6	-2	-0.6	-2
Depreciation and amortization	-1.8	-3	-1.5	-4	-1.2	-4
5. EBIT	3.1	5	-2.1	-6	-1.8	-7
Financial result	-0.4	-1	-0.3	-1	-0.4	-1
6. EBT	2.7	4	-2.4	-7	-2.2	-8
Taxes on income	-1.1	-2	0.8	2	0.9	3
7. Consolidated net income/loss	1.6	3	-1.6	-4	-1.3	-5
Earnings per share/€	0.16		-0.17		-0.15	
Assets						
Fixed assets	12.2	30	8.1	33	8.1	30
Current assets	14.0	35	13.6	56	14.7	55
Liquid funds	14.2	35	2.6	11	4.1	15
Total assets	40.4	100	24.3	100	26.9	100
Shareholders' equity and liabilities						
Shareholders' equity	15.9	39	14.0	57	15.4	57
Long-term loans	13.5	34	4.5	19	5.3	20
Short-term loans	11.0	27	5.8	24	6.2	23
Total shareholders' equity and liabilities	40.4	100	24.3	100	26.9	100
Cash-flow	11.6		-1.5		-3.7	
Equity ratio		39%		58%		57%
Research and development						
Research and development expenditure	1.5		1.0		0.6	
as a percentage of gross performance		2%		3%		2%
Staff data						
Number of employees	117		108		102	
Personnel expenses	5.2		4.6		3.9	
Personnel expenses as a percentage of gross performance		8%		13%		14%
Gross performance per employee	0.55		0.34		0.27	
Share data						
Number of shares (weighted)	9,514,070		9,514,070		9,234,419	
High/low (€)	7.95/1.75		2.25/0.84		4.76/1.60	
Share price as of 31 December (€)	5.95		1.85		1.6	
Market capitalization as of 31 December (€)	56,608,717		17,601,029		15,222,512	

Possible rounding differences.

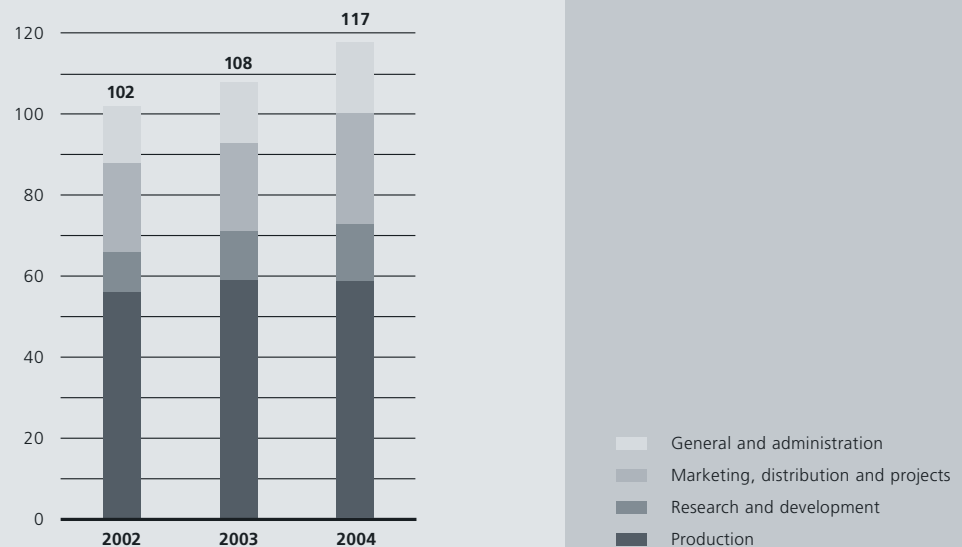
Sales in thousands of €



EBIT in thousands of €



Employees



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Foreword of the Management Board

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



In 2004, the solar market experienced a dynamic growth unequalled so far from which Sunways AG benefited as well. I promised in the 2003 annual report that we would reach the profit zone in 2004 – and we succeeded. Our sales rose to more 66 million Euro and thus grew by almost 73 percent against the prior year. As announced, we also generated a positive annual result which, at 1.6 million Euro, is even higher than projected at the beginning of the year.

In Germany where, according to estimates of the trade association, the volume of the solar market doubled in 2004, we benefited from the amendment of the Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG). As expected, the pile-up of investment projects developed after the expiration of the 100,000 Roofs Program in the summer 2003 dissolved. The new energy feeding rates create a reliable basis of calculation for investors and make the decision in favor of an eco-friendly electricity generation independent of the politically biased promotion policy. Thus in 2004 Germany should have entered into competition with Japan for the leading role as the largest solar market worldwide. However, the strong growth is not limited to Germany. In Europe, Spain currently records the highest growth rates. The funding of solar energy in this market is based on the German model and an energy feeding rate has also been adopted. On a global level, Japan and the USA have recently also recorded a solid market volume. All these factors resulted in a bottleneck situation in the global solar market. Sunways AG also sold off its production up to the year-end 2005. However, we do not intend to rest on our laurels but will take advantage of the economic situation for a targeted strengthening of our company.

Our first priority is the start of construction work at our new production plant in Arnstadt/Thuringia where we will manufacture solar cells in 2005. In the initial phase, the capacity will reach 30 megawatt (MW), i. e. nearly three times our current production volume in Constance. Sunways AG will enter into a new dimension with this step. In Thuringia, we will create 60 new jobs. This largest individual investment of our corporate history – totaling 22 million Euro – is funded by an intelligent mix: just under one half was raised through a convertible bond issue which was received well by institutional investors and is already quoted at 70 percent above its issue price. This financing is supplemented by bank loans and promotion funds.

However, as a quality provider, we not only rely on production capacity. Even at a time when the demand for solar cells exceeds the supply by far, we strictly adhere to our quality policy. Thanks to our research and development activities, we were able to further increase the efficiency of our solar cells. Especially in connection with the new promotion policy, investors will be able to capitalize on that fact since systems with optimized Sunways components generate more electricity per solar square meter. This also applies to our Solar Inverter which was awarded the “euregio bodensee 2004” innovation prize as well as the “Internationalen Designpreis Baden-Württemberg” and “iF Design Award”. What makes us particularly happy is that our customers as well made the Solar Inverter a success. Our initial sales projections were exceeded by far.

The introduction of a quality management system according to DIN EN ISO 9001:2000 in 2004 involved great efforts on the part of all employees. This system is also used by our subsidiary MHH Solartechnik GmbH. It is not an end in itself. Quality is important to us as well as to our customers. Thanks to this system, we are eligible as a potential supplier for new, demanding customers, for example from the automotive industry.

We also invested in our distribution organization. Against the background of a seller market, this may seem paradoxical. However, the long-term attraction of customers has first priority for Sunways. We are convinced that the course for long-term business relations is set today. We will continue our marketing campaign "sunways on tour" by which we will approach our customer on site in many German cities and convince them of the high quality of our products. In addition, we will strengthen our distribution unit in Spain in order to participate in the growth of the local market. Our goal is to achieve a market share of more than 10 percent. We are headed in the right direction.

We are also looking back on a dynamic year 2004 – just as dynamic as the photos used in this annual report. They show our latest reference project, the "TüArena" sports hall in Tübingen. With this project, we proved our competence as a manufacturer of special solar cells: green Sunways Solar Cells embellish the façade – photovoltaics integrated harmoniously into the environment and everyday life.

In 2005, we intend to achieve a two-digit increase in sales. This will be made possible by our new Arnstadt production plant, even though its contribution cannot yet be predicted precisely. We will only be able to take advantage of its full capacity in 2006. At the same time, we want to continue to generate profits despite the investment and start-up expenditure. In view of our full order books and prognoses anticipating a continuously dramatic development of the photovoltaics market, we are confident that we will reach this goal.

We would like to thank our shareholders and business partners for placing their trust in Sunways AG. In 2005, we will again do everything to justify this trust. I would also like to express my thanks to our employees as our success would be inconceivable without the extraordinary commitment of every single one of them. Please do not hesitate to approach us with your suggestions, questions or wishes.

Sincerely yours,



Roland Burkhardt
Management Board

The Company



The things that matter.

To be innovative, to realize our own ideas and advance our own developments.

Photovoltaics by Sunways – integrated into the façade of the “TüArena” sports hall in Tübingen.

For the benefit of the environment and people.



2004 at a Glance



Sunways Production GmbH –
Foundation for further growth

January

Coming into force of the Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG)

The revised public promotion program for solar energy takes effect as of 1 January 2004. The separation from public funding and concentration on an attractive energy feeding rate result in a significant upswing of the photovoltaics market and a continuous rise in incoming orders.

March

Completion of the reference project in Japan

Transparent Sunways Solar Cells embellish the staircase of the research center of the Japanese Ministry of Trade and Economy in Tukuba City. The building becomes a showpiece for the integration into façades of transparent solar cells.

April

Opening of the MHH distribution office in Munich

Our subsidiary MHH Solar-technik GmbH focuses on long-term customer relations, good consulting and flawless services. The employees at the new regional office in Munich ensure close relations with customers based in Bavaria, Austria and Switzerland.

July

“TOP 100” award

We receive the “TOP 100” quality stamp for our innovation management. It is awarded within the framework of a nationwide comparative study by the Vienna Economic University under the patronage of Lothar Späth.



August

Certification of our quality management system

With our management system certified in accordance with DIN EN ISO 9001:2000, we have established principles that are complied with by all the employees of our Group. Customer wishes have become even more important to our work.

October

Successful placement of the Sunways convertible bonds

We issue convertible bonds in a nominal amount of 10 million Euro to finance our new production plant in Arnstadt/Thuringia. The issue was very well received by the capital market.

November

Completion of "TüArena" in Tübingen

Green Sunways Solar Cells embellish the façade of the "TüArena" sports hall in Tübingen, showing the multiple design possibilities of the façade integration of photovoltaics.

November

A cut of the spade for further growth

The foundations of the expansion of Sunways AG are laid on 29 November 2004 by turning the first sod for Sunways Production GmbH in Arnstadt/Thuringia. The plant with a capacity of 30 MWp will produce Sunways Solar Cells from the summer 2005 onwards. The expansion of our production capacity from 16 to a total of 46 MWp will significantly strengthen our market position.

Sunways – Dynamism and Quality



**Do the right things.
Do things right.**

“To us, being innovative means to realize our own ideas, to advance our own developments and to proceed according to our own concepts – for the benefit of customers and to optimize photovoltaic systems.”

Roland Burkhardt,
Management Board

Successful products thanks to excellent innovation management

The core competence of Sunways AG is the development and manufacture of solutions and products for the generation of electricity from solar energy. Our ability to do the right things right made us a technologically leading manufacturer in the photovoltaics area and created numerous innovative products. The things that make Sunways products so convincing are their technical features, ecological advantages and sophisticated design. We make photovoltaic products profitable and fit for everyday use and are consistently working on the systematic expansion of our product range and quality improvement. Since our corporate structures are transparent, innovative ideas have a very good chance to develop – from development to serial production. The smooth transfer from the laboratory to the production unit is important in this respect. Therefore, we participate in international research projects, inter alia for the development of new silicon technologies. At our Company, innovation is based on a broad understanding of cooperation. Therefore, we do not solely rely on our own research and development department for innovations but also cooperate

for example with the Photovoltaics Institute of the University of Constance and the Fraunhofer Institute for Solar Energy Systems.

In 2004, we were awarded the “TOP 100” quality stamp for our innovation management. Four areas that ensure innovative capabilities also in the long term, i. e. innovative processes and organization, innovation climate, innovation marketing and innovation-promoting management, were examined and awarded within the framework of a nationwide comparative study headed by Prof. Dr. Nikolaus Franke of the Vienna Economic University.

Business model characterized by the system concept

Over the past ten years, Sunways has increasingly developed from an engineering office for the planning and installation of photovoltaic systems into a manufacturer. In this context, we have never neglected the system concept and always looked at the product created from the customer's point of view.

The photovoltaic system is composed of several components. The quality and efficiency rate of the solar cells and inverters are crucial to the output generated by the system. We are presently still realiz-



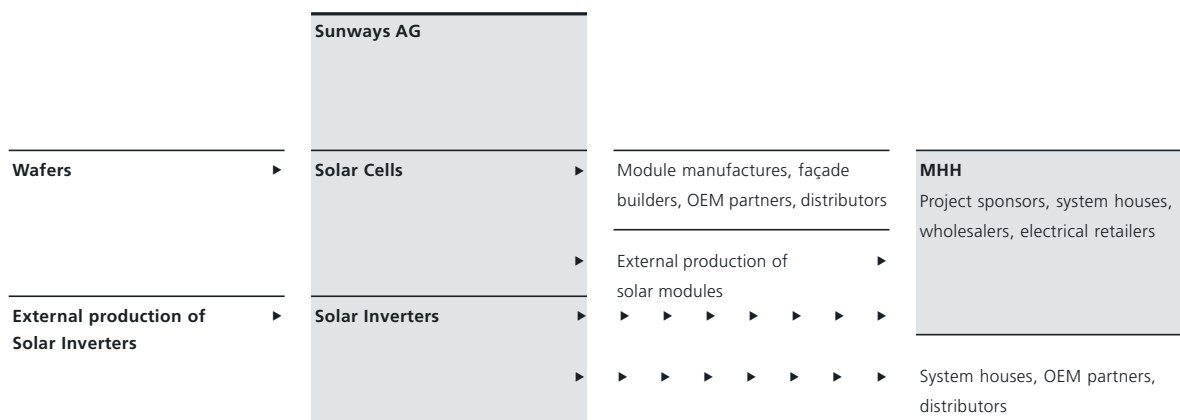
ing the system concept for the customer's benefit: We develop a new product when this creates an additional benefit for the customer and the system operated by that customer. An advantage must arise to the customer from optimizations of existing products.

We concentrate on products for the development and production of which we can, for the customers' benefit, make use of our know-how acquired over many years and for which we anticipate a market potential in the long term. We establish our own quality standards with tight process tolerances.

Research and development, the production and distribution of solar cells and inverters as well as the MHH modules with integrated Sunways Solar Cells manufactured according to our specifications cover a major part at the end of the solar value-added chain. We enter into production partnerships to the extent that the development of our own capacities would not be efficient. However, in our core divisions, we work exclusively with our own resources. This results in substantial cost reductions and competitive advantages. Thus we are well positioned in a dynamic market.

The system concept as a motto:
A system is only as good as the sum of its individual components. The system's performance is determined by its weakest link.

Solar value-added chain





Sunways products – focus on high-tech and design

Quality prevails

In addition to the strictly system-oriented approach, the quality concept plays an important role in our strategy with respect to the high quality of products and their high efficiency rate. We achieve the latter because we are in control of the production process – it is the regulating screw for a continuously convincing quality. Carefully selected wafer suppliers provide us with the raw material for our solar cells. Every single solar cell shipped from our plant has been subjected to various quality tests.

Sunways Solar Inverters have been produced by a reliable German partner in Hungary for many years.

The modules distributed under the “MHH” brand name are manufactured according to our specifications by a renowned German module producer.

Our customers appreciate the reliability of the data and process tolerances specified by us and the high efficiency rates.

To us, quality also means guaranteed performance. Thus we have positioned ourselves as a premium provider.

Sunways Solar Cells for multiple applications

Sunways develops and produces high-quality solar cells based on silicon and with high efficiency rates. Our solar cells meet the highest requirements as to quality and performance. The standards and process tolerances established by us guarantee a consistently high production quality. The color is determined by the customer: At request, we produce our solar cells according to individual color specifications. Since January 2005, we have also produced solar cells in a 156 x 156 mm format. This adjustment was made to accommodate the wishes of module manufacturers.

Monocrystalline Sunways Solar Cells in a 156 x 156 mm format are high-performance solar cells for all sophisticated and professional applications. With an efficiency rate of up to 16.7 percent they generate first-rate yields. Thanks to an even surface and dark colors, they form an aesthetic unit and become an eye-catcher.

We decided to produce these cells in November 2003 and made every effort to permit their manufacture on our existing production line in Constance. The reasons were the following: On the one hand,



there is a possibility to increase the efficiency rate of this cell type up to 18.5 percent within the next two years at reasonable production costs. On the other hand, a substantial number of suppliers of monocrystalline wafers are available so that the supply of this raw material is ensured in the long term and our dependence on suppliers is reduced. The demand for our monocrystalline solar cells – we were able to sell 2.3 MW in 2004 – confirms this decision and increases our experience in the area of new production technologies.

Multicrystalline Sunways Solar Cells generate a convincing efficiency rate of up to 15.7 percent. Their consistent quality ensures the solar module's reliable output; their cost-effectiveness guarantees optimum economic efficiency.

Transparent Sunways Solar Cells combine aesthetic design with the generation of electricity. They generate energy, shade windows and are simultaneously permeable to daylight. Thus they are excellently suited for façade integration. The connection between the interior and the exterior often desired by architects can be created. From the outside, the solar cell is seen as a one-sided visual and sun protection while from the inside it offers an unimpeded view of the outside. The prod-

uct can be used wherever a good view is desired. There are other areas of application, in addition to façade integration, for example in glass sliding roofs of cars.

In 2004, we increased our production capacity in Constance from five to 16 megawatt; we continue to produce around the clock on seven days a week. A new production plant is currently being erected in Arnstadt/Thuringia: Sunways Production GmbH will create 60 new jobs and start production operations in summer 2005. Thus we will increase our production capacity to a total of 46 MWp and significantly expand our market position. An extension of the capacity in Arnstadt to 80 MWp is already planned.



Success history of the Sunways Solar Inverter continues

The inverter is the heart of every solar system. It feeds the energy generated by the solar cells into the public network. Our corporate history started with an inverter – before the founders even thought of the production of solar cells. In 2003, Sunways presented an innovative generation of transformerless inverters: A new technological concept with the HERIC® Topology, for which a patent application has been filed, generates the worldwide unsurpassed efficiency rate of 97 percent – thus the operator of the solar system has a clearly measurable benefit in money's worth.

In 2004, the Sunways Solar Inverter again made corporate history: The demand by far exceeded the initially planned production volume. Subsequently, our partner in Hungary initiated a second production shift. Sunways Solar Inverters with a total capacity of 21.8 megawatt were installed in 2004 (2003: 4 megawatt).

Design awards show that photovoltaics are increasingly becoming a part of our everyday life: The Sunways Solar Inverter NT is also suited for installation in the entrance or living area and does not have to be hidden in the basement. In 2004, it received innovation and design awards that we

mainly see as an acknowledgement of the performance of all Sunways employees: the Innovationspreis euregio.bodensee, Internationaler Designpreis Baden-Württemberg and iF Design Award.

The Sunways Solar Inverter NT business is becoming increasingly more important to Sunways. With the new inverter generation we are very well positioned to further increase the market share of the solar inverter. We want to strengthen our market presence with this product primarily in Spain.

MHH Solartechnik GmbH – Service with a system

Tübingen-based MHH Solartechnik GmbH, our wholly-owned subsidiary, has long-standing experience in the area of complex projects. As a system house, MHH specializes in consulting services, planning and distribution and attaches great importance to long-term customer relations, intensive consulting and customer care as well as flawless service and adherence to delivery dates. In addition to other types of modules, our subsidiary also distributes the "MHH plus" module with integrated Sunways Solar Cells as well as the Sunways Solar Inverter. MHH modules offer the advantages of perfect quality control,



minimum process tolerances and easy installation.

MHH has also benefited from a an undiminished demand since 1 January 2004, the effective date of the revised public promotion program for solar energy in Germany in the form of increased energy feeding rates. In 2004, our subsidiary recorded a significant rise in sales by just under 80 percent against 2003. The market share amounted to approximately five percent. Thus MHH continues to be among the ten largest system providers in Germany.

International markets offer additional sales opportunities

The photovoltaics market is growing worldwide. There is a strong demand for solar energy which markedly exceeds the global production capacities. Many governments follow the German promotion model and plan or offer similar programs.

In 2004, this development was experienced mainly in Spain: The Sunways Solar Inverter launched at the end of 2003 achieved a market share of 10 percent and sales of our solar cells doubled.

Our longstanding relations with Italy and Japan also offered new sales opportunities in 2004. In Japan, we prevailed over

domestic competitors with respect to the research center of the Japanese Ministry of Trade and Economy opened in March 2004: The façade of the building is decorated with Transparent Sunways Solar Cells.

There are also contacts with the slowly developing US market. However, on the one hand, we are currently not in a position to deliver the desired volumes, on the other hand, the power supply system is inaccessible to progressive technologies, such as transformerless inverters.

In the second quarter, we generated about 13 percent of our solar cell sales abroad.

However, in the second half of the year limited production capacities required a concentration on the German market and prevented us from satisfying the demand from abroad.

Façade integration is a new area of application with great potential for which the energy feeding rate guaranteed by the Renewable Energies Act (EEG) has created attractive conditions. We also feel that there is additional interest from abroad.

In France, Spain, Italy and Japan, the focus on design is stronger than in Germany.

Spanish success story:
In 2004, the installed capacity ranged between 13 and 15 megawatt. A market volume of 27 to 32 megawatt is anticipated for 2005.



Dialogue with our customers

Research, marketing and distribution activities have to be coordinated to pave the way for the market launch of an innovation. Therefore, we are seeking a dialogue with our customers and users of our products. Thus we ensure that their wishes and demands are already taken into account in the product development stage. The feedback from our customers contributes to the optimization of our products.

Following the initial steps in 2003, we took further measures in the past fiscal year 2004 for a dialogue-oriented attraction of customers. In October 2004, we approached partners and installers in the "sunways info check" campaign and continued the "sunways on tour" campaign started in 2003. Thus we provided information on a personal level on the most recent developments relating to the Sunways Solar Inverter in Stuttgart and Munich.

In 2005, our distribution team will again be traveling in Germany with a new training concept in order to support our regional distribution partners, to inform our customers on current developments and to strengthen the network of relationships.

Certification in accordance with DIN EN ISO 9001:2000

The success of our Company is ensured if we fully meet the demands and expectations of our customers. We want to develop and deliver high-quality products that correspond to our customers' wishes. Only this will enable us to maintain and increase the high percentage of regular customers. To ensure that customer demands are reliably implemented, we decided to adopt a quality management system supported by all employees.

This system is very important to us for the implementation of our customers' demands and expectations, the statutory regulations and technical rules as well as for the compliance with environmental requirements in conformity with our economic interests. In addition, we are striving for partnership-based relations with our suppliers.

By means of the quality management system certified in August 2004, we have met all requirements under the DIN EN ISO 9001:2000 standard and established the basic rules complied with by all Sunways and MHH employees. The goal is a permanent improvement of the quality of our products and services as well as the reduction of costs and the expansion of our market position.



New reference project "TüArena"

Sunways Solar Cells can be found worldwide in innovative building concepts and façades. The "TüArena" sports hall in Tübingen, which we have selected as the motif of this annual report, is an impressive example of the application of solar cells.

The hall is a sports arena meeting national league standards and inter alia is the home arena of the "Walter Tigers" basket ball team, a Tübingen-based national league member.

More than 20,000 Sunways Solar Cells installed on the south west façade achieve an installed capacity of approximately 43.7 kW in an area of 520 m² and generate approximately 30,000 kWh of eco-friendly electricity per year – which corresponds to the average consumption of seven households, making this structure the world's largest photovoltaic façade with colored solar cells.

According to the specifications of the architect Thomas Meusburger of the Munich architect's firm "Allmann Sattler Wappner Architekten GmbH", Sunways produced green solar cells for this project that harmonize perfectly with the overall architectural and energetic concept and, thanks to their coloring, the environment.

The building sponsor, the Tübingen public utilities, deliberately relied on renewable energy sources and a minimum utilization of primary energy. The 998 special modules were produced by our partner GSS Gebäude-Solarsysteme GmbH and installed by SunTechnics Solartechnik GmbH. The "TüArena" proves that photovoltaics are increasingly accepted as a part of and can be harmoniously integrated into everyday life. Solar energy is becoming a worthwhile and attractive supplement of the construction concepts of architects and builders: Photovoltaics combine aesthetics and functionality.



“If consistently launched in the market, renewable energies may be a job motor for decades to come since regional labor will be required to utilize free solar energy instead of the finite mineral oil.”

Joschka Fischer, Federal Minister of Foreign Affairs

Photovoltaics: a job motor for decades

Solar energy is the only type of energy provided to the earth from outside in an unlimited amount; it can make an important contribution to energy supply and the replacement of fossil energy carriers. It is the task of politicians to create the framework conditions that make Germany an attractive location for photovoltaic companies and trigger demand. A strong domestic market permits strong exports. Therefore, we expressly welcome the amendment of the Renewable Energies Act.

From an economic point of view, the question is no longer which type of energy should be subsidized: As solar energy is an infinite resource, the promotion funds invested are a long-term investment across societies and generations.

Solar energy has to be considered a strategic energy sector. Countries where photovoltaics are not yet widely used follow the pioneer Germany. The Renewable Energies Act sets an example worldwide and Germany is the global leader in solar technology.

The products of the German solar industry will become top-selling export articles – if there is convincing evidence that solar energy is adequately utilized in Germany.

Therefore, the promotion of photovoltaics in Germany also supports the global distribution of solar energy.

The solar industry is developing into a job motor: In 2020, it might already be possible to supply more than one billion people with solar power. Thus more than 2.2 million new jobs would be created and CO₂ immissions could be reduced by 169 million tonnes per year.

According to surveys of the Unternehmensvereinigung Solarwirtschaft (Association of Companies of the Solar Industry – UVS), domestic photovoltaics manufacturers doubled their production capacities in 2004. They created more than 5,000 new, qualified jobs, mainly in medium-sized and craft enterprises. The future-oriented renewable energies industry currently has a total of 130,000 employees – i. e. more than the combined coal and nuclear industries.

The demand for photovoltaic systems is so strong that even suppliers of this industry (for example suppliers of electronic components) are required to expand their capacities. This means that jobs are created at all levels of the solar value-added chain.

According to calculations of the UVS, every consumer currently pays 34 Cents per year for the expansion of the utilization of



solar power. In case of an increase of the installed solar power capacity to 2,100 MW by 2010, this amount would rise to 4.50 Euro. The relevant amount for the coal industry is currently already 48.80 Euro per annum.

One should not forget that the share of renewable energies in the total energy production is a mere 6 percent. Photovoltaics have to become a basic element of the energy supply to fulfill the international climatic protection obligations. To this end, the consensus and commitment of the political and economic forces throughout Europe will be necessary. Every investment in solar energy contributes to climatic protection, new innovations, a decreasing dependence on imported raw materials and a decline in unemployment.

“The more and the faster a society advances the substitution of renewable energies for nuclear/fossil energies, the better for the environment and the economy.”

Dr. Hermann Scheer, Member of the Bundestag (German Parliament), winner of the Alternative Nobel Prize, chairman of the World Council for Renewable Energy

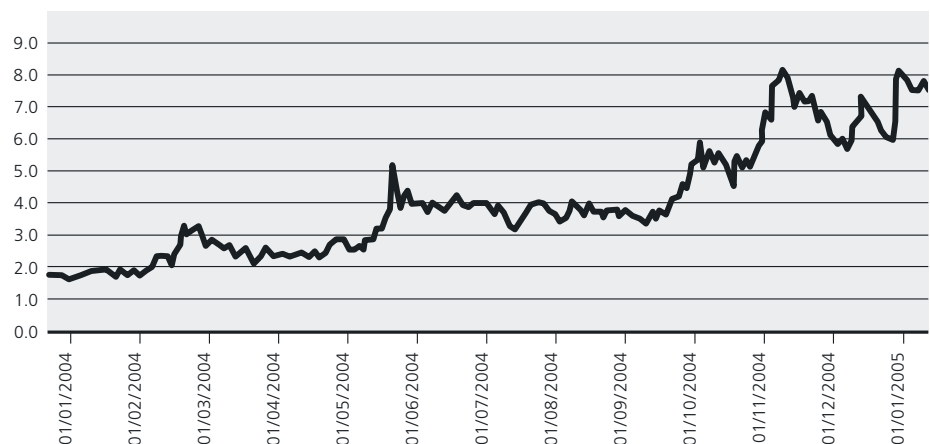
The Sunways Share



Sunways has been a stock corporation since 1999 and a listed company since February 2001. Its shares have been traded in the Prime Standard segment since 2003. Thus we meet the highest demands with respect to transparency and clarity of capital market communication. The companies of the solar industry were among the winners in the stock market in 2004. The Sunways share also benefited from this development. The share price rose from 1.80 Euro on the first trading day to 5.95 Euro as of 30 December 2004 and thus more than tripled.

This rise in the share price continued in the first months of 2005. In the first four months of 2004, the share price performance was still affected by the skeptic mood of the market. The share price experienced a first significant rise after the ordinary general meeting on 6 May 2004. On this occasion, we submitted the report on an extraordinarily successful first quarter and confirmed the prognosis that we would generate a positive result for 2004. The price of the Sunways share permanently crossed the 4-Euro threshold. Following the issue of our convertible

Share price performance in €





bonds, the share price continued to rise and reached its annual high at 7.95 Euro in the Xetra trading.

To finance our new solar cell plant in Arnstadt/Thuringia, we successfully placed a convertible bond issue in the nominal amount of 10 million Euro with institutional investors we had previously visited in connection with a roadshow in several German cities as well as Zurich and Vienna. The bonds bear interest at a rate of 7 percent per annum and will be due in 2009. After the 2006 general meeting, the holders will for the first time be entitled

to convert their bonds into shares of Sunways AG.

In the 2003 annual report we promised to intensify our investor relations activities and to make the Sunways share a quality investment in the area of renewable energies. In 2004, we realized these plans inter alia in the form of an international roadshow in Zurich, Vienna, Stuttgart, Mainz and Frankfurt, where we presented Sunways AG to the financial market, and by participating in the Small Cap Conference of DVFA as well as in the Baader Investors' Conference.



Key figures

	2004	2003	2002
Earnings per share (€)	0.16	-0.17	-0.15
Shareholders' equity per share (€)	1.66	1.47	1.62
Number of shares (weighted)	9,514,070	9,514,070	9,234,419
Share price high/low (€)	7.95/1.75	2.25/0.84	4.76/1.60
Share price as of 31 December (€)	5.95	1.85	1.60
Market capitalization as of 31 December (€)	56,608,717	17,601,029	15,222,512

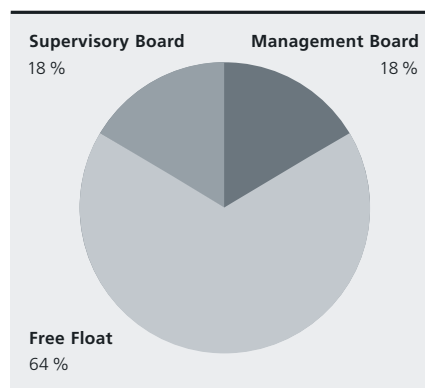


Our analysts' conference was held on 10 November 2004 in Frankfurt/Main. We confirmed our positive outlook for the fiscal year and presented first details of the new production plant. Thus the interest of private as well as of institutional investors in our Company increased markedly in 2004.

We have revised our website and make numerous current data as well as background information available to our investors. Two banks have currently published recommendations relating to Sunways. Our share was marked "hold"

by Landesbank Baden-Württemberg as well as by equinet Institutional Services. We consider it a major task to explain the features of the Sunways share and to make it better known. In connection with the certification in accordance with DIN EN ISO 9001:2000, we have set ourselves the goal to increase customer-orientation; consequently, this approach also applies to our customers in the investor relations area and has to be optimized – with respect to our shareholders, the investors, analysts and bank representatives.

Ownership structure





In 2005, we will take further measures to increase transparency. The implementation of the Law on the Improvement of Investor Protection (Anlegerschutzverbesserungsgesetz – AnSVG), which took effect in November 2004, requires an even more intensive communication with the capital market and extensive measures for the careful handling of insider information. We are well prepared to meet these requirements.

The feedback we received during 2004, also from the press, shows that we are on the right track.

We will be happy to receive a response enabling us to even better adjust our future work to your needs. In 2005, we again intend to be open and fair partners for our shareholders and undertake to provide highly transparent, current information.

Shareholdings of members of executive bodies

	Shares as of 31/12/04	Options as of 31/12/04
Management Board		
Roland Burkhardt	1,730,345	40,000
Supervisory Board		
Dr. Roland R. Bahr, chairman	9,902	
Otto Mayer, deputy chairman	760,000	
Ernst Haug	3,695	
Franz Heim	937,690	
Heinz W. Bull	0	
Manfred J. Schulz (until 30/04/04)*	0	
Frank Wehking (from 06/05/04)*	0	

* Manfred Schulz retired from the Supervisory Board as of 30 April 2004. On 6 May 2004, the general meeting elected Mr Frank Wehking as a new member of the Supervisory Board.

Group Management Report





Management Report



A. General economic development

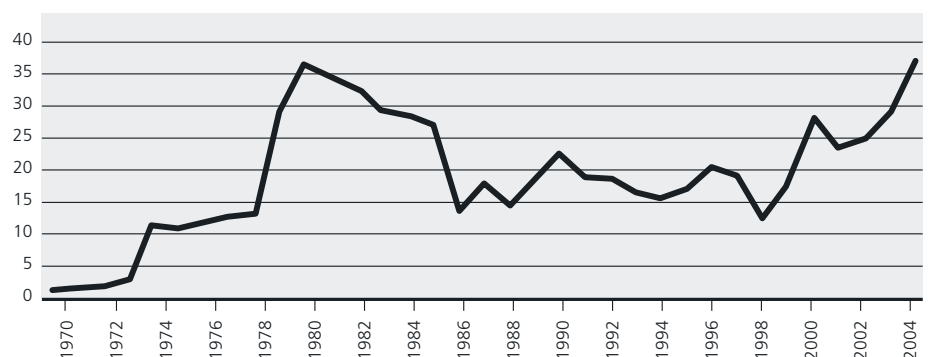
Oil price slows down the upswing of the global economy

A recovery of the global economy already started at the end of 2003 and continued during the entire fiscal year 2004, albeit at a declining growth rate in spring 2004. This slowdown was felt especially in the USA and in China. On the other hand, the economic expansion in the European Union continued at an almost undiminished rate. The German economy was also markedly strengthened in 2004. The stagnation, which had started in 2000 after the economic slump, seemed to have been overcome. However, the upswing in Germany was mainly driven by the comparatively

strong export development. Domestic demand continued to be weak in 2004. Economic activity was dampened by another increase in the oil price that reached a new record level in October 2004.¹ This represented a drain on the purchasing power and in particular slowed down private consumption. The population was reminded of the finite nature of fossil energy carriers and the need for alternative types of energy was expressed with more urgency. The economic development in 2005 in the European Union will largely depend on the development of energy prices, in particular that of the oil price. We anticipate that the development of the German and European economies will be similar to that in 2004.

¹ Lage der Weltwirtschaft und der deutschen Wirtschaft im Herbst 2004, DIW, www.diw.de

Development of crude oil prices in \$/barrel



Source: Mineralölwirtschaftsverband, www.mwv.de



B. Development of the industry and the economic environment

The significant growth of the photovoltaics market continued in 2004

The strong growth in the photovoltaics market continues. In terms of the annual production volume of solar cells and modules, the global market grew by 34 percent to just under 750 MWp in 2003. The market growth accelerated further until the year-end 2004. A total annual production of more than one gigawatt (1.125 MWp) is anticipated.²

This growth is combined with corresponding capacity expansions. The development of companies along the solar value-added chain in 2004 was marked by strong demand. In 2004, high amounts were invested in the expansion of capacities for the solar cell and module production, in particular in Germany and Japan. This development will continue over the next years.

Only the wafer production stagnated in 2004. Several solar cell manufacturers had to make downward adjustments to their announced production figures due to this raw materials scarcity. The raw materials supply situation is expected to ease up from 2007 onwards – this is how long the expansion of production capacities for

silicon for solar applications is anticipated to take. The growth of the industry should slow down in 2005 due to the scarcity of raw material.

Compared to 2004, production capacities for solar cells should almost double by 2007. An average annual growth of the solar cell production of 13 percent is anticipated for the period from 2003 to 2020. The Association of Companies of the Solar Industries (Unternehmensvereinigung Solarwirtschaft – UVS) estimates the long-term potential of the global market for solar power technology to be more than 100 billion Euro.

Regional markets

The photovoltaics market is still dominated by Japan, Germany and the USA. The share of these nations in the newly installed photovoltaic capacity worldwide amounts to more than 88 percent. Germany continues to record the highest percentage growth rates.

² Solarenergie – ungetrübter Sonnenschein?, Sarasin Study, Basle, November 2004



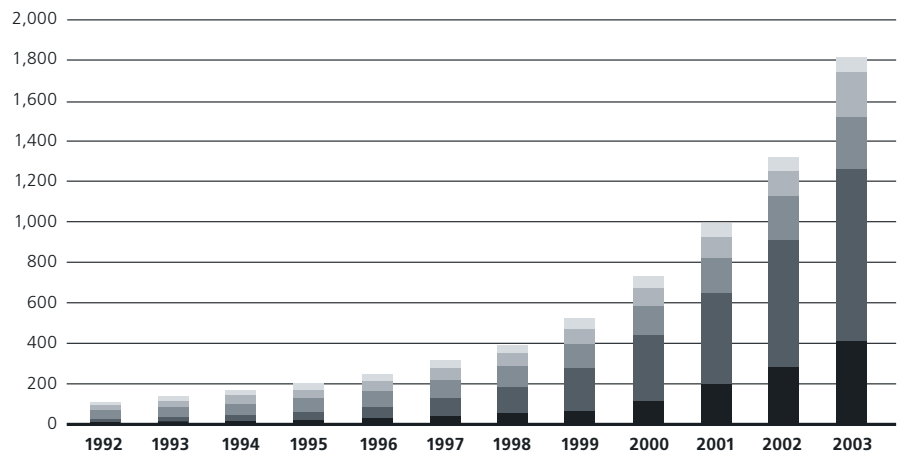
Japan

In terms of total installed photovoltaic capacity, Japan continues to be the largest regional market by far. An energy framework law adopted two years ago is focused on a stable energy supply, eco-friendliness and market mechanisms. Photovoltaics are expressly mentioned in connection with the achievement of the environmental target. The “Ministry of Economy, Trade and Industry” anticipates the share of regenerative energies in the total energy

demand to amount to 10 percent by 2030. Very ambitious goals for the PV industry are derived from this prognosis. The “Residential PV System Dissemination Programme” (RPVDP), which made Japan the leader in the area of solar power in recent years, will continue to run until March 2006. It is presently still unclear what promotion measures will follow this program. Stable market conditions may, however, be expected in the next two years.

Regional break-down of accumulated photovoltaic capacity installed worldwide in MW

- Other countries
- Europe
- USA
- Japan
- Germany



Source: IEA-PVPS, www.iea-pvps.org



USA

After two decades of continuous growth, the USA recorded a first decline in production in 2003 which was mainly due to the insolvency of Astropower.

A slight increase in production capacity may be anticipated for 2004 and subsequent years.

Due to the federal structure, the promotion situation varies in the individual states. There are very good promotion terms in California, Illinois, New York, North Carolina and Hawaii, the promotion of photovoltaics in eleven other federal states is satisfactory. Incentive programs in other states are hardly attractive or even non-existent.

The market structure in the USA differs increasingly less from the Japanese or German markets. There is a slow shift of market shares from insular systems towards systems connected to the network.

According to a study of the Solar Electricity Power Association (SEPA), "The Solar Power Solution", the market for systems connected to the network is still limited but steadily developing and offers very good growth prospects – provided that the corresponding promotion programs are established.

European Union

The goal of the European Union to install a total photovoltaic capacity in its member states of approx. 3 GWp by 2010 remains unchanged. Currently, Germany continues to be predominant in the European market. However, other countries are also beginning to implement these guidelines which leads to a strong market growth, mainly in Spain, the Netherlands, Italy and France.

The photovoltaics market in Germany grew by more than 100 percent in 2004

Irrespective of the hesitant economic development, the photovoltaic market in Germany recorded a satisfactory development in the past fiscal year. The market volume amounted to about 300 MWp. This corresponds to an increase against the prior year by 100 percent. Thus Germany was the world's largest photovoltaics market in 2004.

According to the Association of Companies of the Solar Industry (Unternehmensvereinigung Solarwirtschaft – UVS), the production volume rose from 100 MWp (year-end 2003) to approximately 210 MWp (anticipated by the end of 2004). Due to the strong demand, approximately one third of the solar modules installed in Germany were imported in 2004. The

Germany: Stable framework conditions due to energy feeding rates that are secured in the long term

Type of system	Promotion 2004
	€/kWh
PV roof systems <30 kWp	0.574
PV roof systems >30 kWp	0.546
PV free area systems	0.457
PV façade systems <30 kWp	0.624
PV façade systems >30 kWp	0.596



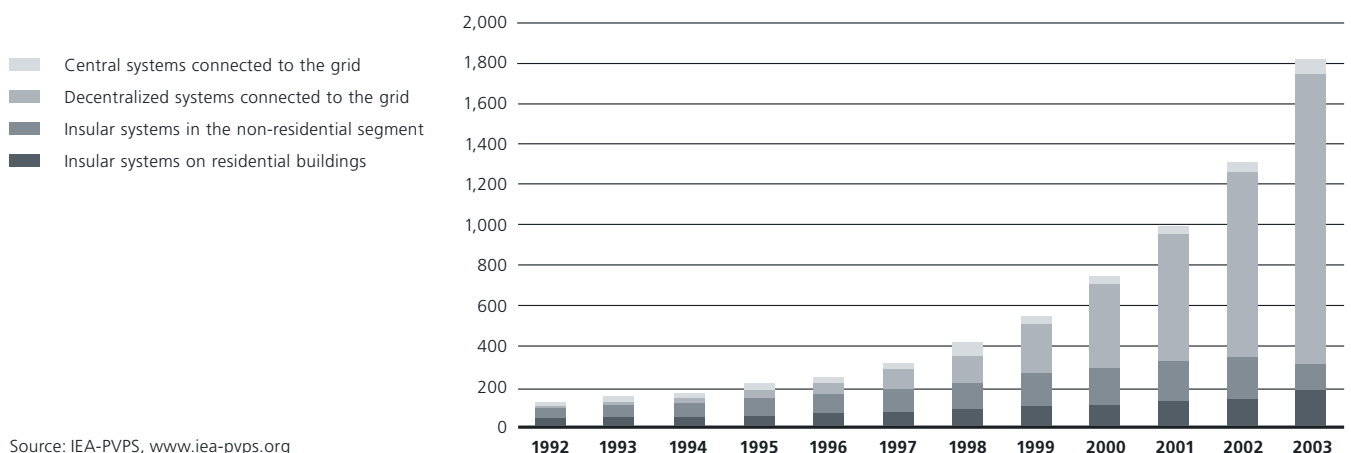
import share is expected to decline significantly by 2006.

Not least the German market was stimulated by the amendment of the Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG) which took effect as of 1 January 2004. Solar systems are now cost-effective thanks to the guaranteed energy feeding rate. This has given the photovoltaics sector access to new customer groups and new impetus to the entire industry.

According to the Association of Companies of the Solar Industry (Unternehmensvereinigung Solarwirtschaft), the German solar industry will continue its upward trend in 2005 and 2006.

The expected production volume in 2005 is 300 MWp and the anticipated sales volume is approximately 1.5 billion Euro. The association anticipates a further increase to 560 MWp in 2006.

Accumulated photovoltaic capacity installed worldwide by areas of application in MW



Source: IEA-PVPS, www.iea-pvps.org



Revision of public promotion from 2004 onwards results in further market growth

The revision of the public promotion program for solar energy created the safe planning base for the years to come that the photovoltaics industry required.

The low-interest promotion loans of Kreditanstalt für Wiederaufbau were discontinued in the wake of the amendment of the Renewable Energies Act (Erneuerbare-Energien-Gesetz). Instead, the energy feeding rate for systems connected to the network rose significantly. For promotion purposes, photovoltaic systems are subdivided into several categories with different promotion rates.

We expressly welcome the separation of public promotion from funding and the concentration on energy feeding rates. On the one hand, the new regulations will result in a reduction of bureaucracy, on the other hand, individual investors may take their funding decision irrespective of public promotion.

Market segments

In recent years, growth in photovoltaics mainly related to the market segment of systems connected to the network. At the end of 2003, the market share of systems connected to the network amounted

to approximately 95 percent in Germany and to approximately 80 percent in Japan. This was inter alia due to the public promotion focused on this area, especially in Japan and Germany.

In our opinion, systems connected to the network will also record the highest growth rates in the future due to the continuing promotion.

Technological development

As in the past years, the crystalline silicon technology maintained its strong market position. The share of mono- and polycrystalline solar cells in the total production volume of solar cells rose slightly to about 89 percent, whereof approximately 57 percent accounted for multi-/polycrystalline solar cells and 32 percent for monocrystalline solar cells. The remaining 11 percent accounted for silicon ribbons/sheets and thin-film technologies (a-Si and CdTe as well as CIS). Both technologies are still on a modest level. However, should there be a scarcity of raw silicon for solar applications in combination with corresponding price increases for wafers, this technologies would experience an upward trend. We are closely observing in particular the thin-film technology.

EEG amendment secures the economically efficient operation of photovoltaic systems



C. Business Divisions

1. Solar cells

Continued strong sales growth

In the past fiscal year, sales in the solar cell business division rose by 43 percent to € 21,705 thousand.

The German market recorded a very strong growth and was given priority. In the past fiscal year, the share of sales generated outside Germany remained almost unchanged at 13 percent (prior year: 12 percent).

As planned, sales in the solar cell division largely accounted for non-transparent Sunways Solar Cells made of mono- or multi-crystalline raw material in a 125 x 125 mm format. An amount of € 534 thousand accounted for inter-company sales.

We were able to win the Research Center of the Ministry of Trade and Economy in Tukuba City, Japan, as a reference project for the Transparent Sunways Solar Cells.

Over the next years, we see potential areas of application for transparent solar cells mainly in projects in Asia. In all, the sales of this type of solar cell failed to come up to expectations. The economic efficiency and technology of the Transparent Solar Cell will be improved decisively in the years to come.

Stable prices in the market for solar cells

Due to the strong market growth, all solar cell manufacturers experienced sometimes significant supply shortages. Following a drop in prices of occasionally more than ten percent in the previous year, prices in the solar cell market remained extremely stable in 2004. Moderate price increases were even achieved in some cases.

Sales of solar cells

	2004		2003		2002	
	k€	%	k€	%	k€	%
Germany	18,905	87	13,492	88	6,577	76
Rest of Europe	2,550	12	1,599	11	902	11
Asia	250	1	130	1	869	10
America	0	0	1	0	287	3
Total	21,705	100	15,222	100	8,635	100

Annual production reached 11 MWp for the first time

The annual capacity currently available at the Constance plant amounts to about 16 MWp. By making our production line more flexible, we are able to manufacture solar cells in the 125 x 125 mm and



156 x 156 mm formats in addition to the 100 x 100 mm format.

In the past fiscal year, the output for the first time reached 11 MWp (prior year: 7 MWp). This corresponds to an expansion by 57 percent against the prior year. Due to the full utilization of the production capacity, we reduced the production costs against the prior year. We were also able to further increase the average efficiency rate of the solar cells produced. This means that we made the right investment decisions in the production area in 2003. Our production activities are stable and on a high quality level.

Throughout the year, we conducted continuous shift production operations (7 days per week). As of the year-end 2004, an extensive conversion was started at the production unit. The goal is to further reduce the production costs through automation and to create new production potential.

As of the end of 2004, we increased the production capacity of the Constance plant to 16 MWp. In addition, our subsidiary Sunways Production GmbH started to erect a new production plant in Arnstadt/Thuringia in November 2004. In the second half of 2005, additional production capacities of 30 MWp will be available there.

There are indications of shortages in the market for raw materials

Delivery of the wafer material required in 2004 was secured under framework agreements. The prices for silicon wafers remained almost stable in 2004. There were moderate price increases of about four percent for multicrystalline wafers during the course of the year. The prices for monocrystalline wafers remained stable.

Due to the massive increase in the worldwide demand and the expansion of the solar cell production capacities in combination with the announced growth of the semi-conductor industry, there was a shortage in the production of high-purity silicon (polysilicon). This resulted in an increase of wafer prices for the year 2005 from mid-2004 onwards.

Around the year-end 2004, there were already indications of first shortages in connection with the negotiations with wafer manufacturers relating to delivery volumes and prices for the year 2005. Although new capacities in the area of high-purity silicon are being developed, the situation will only ease significantly in 2007. Therefore, we anticipate wafer prices to increase in 2005. We have largely secured our wafer supply for 2005 under long-term agreements.



Investments

Investments in the solar cell division in the past fiscal year amounted to € 5,828 thousand.

In summer 2004, a new wholly-owned subsidiary was founded in Arnstadt/Thuringia, Sunways Production GmbH. The construction of a new production plant for solar cells was started there in autumn 2004. The production capacity in the first expansion stage will be approximately 30 MWp per year, the investment volume about 22 million Euro. The plant is scheduled to start production in the second half of 2005. The investments effected in 2004 amounted to € 4,371 thousand. The remaining investment amount mainly relates to supplements to and expansions of the existing production plant in Constance as well as EDP hardware and software.

2. Solar systems and projects

Marked sales growth in the system business

In the past fiscal year, the solar system business was subject to strong price competition. Sales in the solar system area were only restricted by the availability of solar modules. As a result of the limited production capacities in the solar cell area in 2004, it was not possible to rapidly increase the module production. The global shortage of solar modules caused a moderate price increase.

In addition, the Group's system house, MHH Solartechnik GmbH, Tübingen, which handles the business with wholesalers, retailers and plumbers, was able to consolidate its position as a high-quality provider in Germany. The company continues to be among the ten largest system houses in Germany. The majority of sales in the system business were generated by our system house MHH Solartechnik.

Our own modules with Sunways Solar Cells marketed under the "MHH" brand name continue to be very successful. Module sales increased to 3,2 MWp against the prior year (2003: 2,2 MWp). With the MHH module, we successfully placed a quality product in the upper market segment. We expect sales figures to rise



again in the future in this area. Presently, the sales potential is restricted as a result of the limited production capacity of Sunways AG.

We continued the distribution cooperation with Solarcomplex GmbH, Singen, a regional sales organization for photovoltaic systems. Solarcomplex sold photovoltaic systems with a volume of 750 kWp to private investors in 2004. The company uses exclusively components of Sunways AG (MHH modules with Sunways Solar Cells, Sunways Solar Inverters).

The share of international sales markedly declined against the prior year. This was primarily due to the strong increase in domestic demand. International sales were mainly generated in the European neighboring countries (Austria, Switzerland) and Spain.

In the Solar Inverter division, the sales of the generation of Solar Inverters NT, which had been successfully launched in 2003, increased to 4,800 units (prior year: 800 units).

Largely stable prices

Due to the continuously strong demand in combination with a shortage of solar systems, prices could be slightly increased. We anticipate a similar development for 2005.

Production partnerships ensure our success

In the system and project business, the Company concentrates on its core competences and, therefore, has no production capacities of its own for inverters and modules. There are long-term supply contracts with reliable partners.

The inverters developed by Sunways in Constance are manufactured by a German cooperation partner in Hungary. Thus we combine high quality with cost-effective production. We further expanded this successful partnership by increasing the production in 2004.

The modules sold under the "MHH" brand name are produced by renowned German module manufacturers according to our specifications. This emphasizes our high quality standards in this area.

Sales of solar systems and projects

	2004		2003		2002	
	k€	%	k€	%	k€	%
Germany	45,218	99	22,267	90	15,357	90
Rest of Europe	532	1	2,536	10	1,773	10
Rest of the world	4	0				
Total	45,754	100	24,803	100	17,130	100



The market for solar systems is again expected to grow strongly in 2005. We already prepared for this development in 2004. Sunways secured its projected sales of solar modules and solar inverters under long-term framework agreements on supply volumes as well as production capacities.

Investments

Investments in fixed assets amounted to € 214 thousand and mainly related to capitalized development costs as well as EDP hardware and software.

D. Personnel and social matters

Thanks to their creativity and far above-average commitment, the employees of Sunways made a crucial contribution to the Company's current positioning as a future-oriented photovoltaics enterprise with substantial innovation potential. Our employees are among our major success factors. The Management Board would like to expressly thank our employees for their dedication and is looking forward to a continued constructive cooperation. To us, being innovative means to realize our own ideas, to advance our own developments and to proceed according to our own concepts. This requires a close cooperation of all employees and external partners. As our corporate structures are transparent, innovative ideas can be developed and we are able to adjust to the dynamic market. We strengthened the second management level by restructuring the organization in 2004. The Management Board is supported by experienced employees.

In the future, we would also like to give young people access to the photovoltaics growth market. Therefore, we will for the first time offer four openings for apprentices within our Group in 2005.



Further increase in the number of employees

In connection with a further strengthening of our research and development as well as distribution activities, the number of employees was increased to 117 in the fiscal year 2004.

Qualification- and performance-related remuneration system

Production employees have worked in four permanent shift groups around the clock on seven days a week since 2002. Within these groups, employees are assigned to various functions, depending on their qualification, on a rotating basis.

The remuneration of employees is comprised of four elements. A uniform basic salary, a qualification-related bonus, a performance bonus as well as general additional payments for night, Sunday and holiday work. The goal of the remuneration system is to create an incentive for the further education of employees so that they can be assigned in the production process as flexibly as possible and to promote the achievement of production targets.

Our operational shift system was developed in close cooperation among the Management Board, production management and the works council. The goal was to reconcile the interests of the Company – for

example with respect to flexible and efficient production operations – with those of the employees.

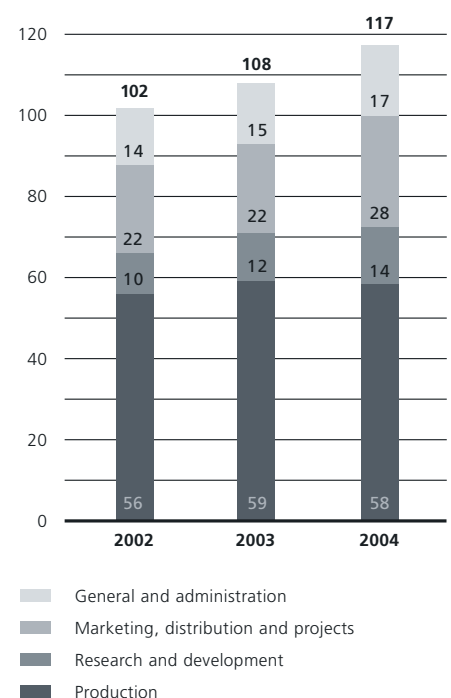
Share options secure long-term commitment

As an additional incentive and for a long-term attraction of qualified employees, Sunways has established an employee participation program in the year 2000.

The Company was authorized to issue up to 400,000 share options to the members of the Management Board and employees of the Company as well as to members of management and employees of associated companies.

Each option entitles the holder to purchase one share. 120,000 of the options are earmarked for members of the Management Board of Sunways AG, 120,000 for members of management and employees of associated companies and 160,000 for employees of the Company and its associated companies. In the period under review, 93,500 new share options were issued to Group employees. As of 31 December 2003, the number of share options issued was 296,600.

Employees by function as of 31/12/2004





E. Financial position and results of operations

Successful placement of convertible bonds – formation of Sunways Production GmbH

A convertible bond issue in a nominal amount of € 10,000 thousand was successfully placed in October 2004. The proceeds of the issue are expected to be used for the expansion of production capacities. A major portion of the proceeds was still recorded under liquid funds as of 31 December 2004. The changes in fixed assets were mainly due to prepayments made for the new production plant in Arnstadt.

Due to the net income generated in 2004, shareholders' equity rose in absolute terms from € 13,987 thousand to € 15,863 thousand. As a result of the convertible bond issue, the equity ratio declined to a still comfortable 39 percent. The redemption of long-term bank loans continued as planned.

Successful turnaround in earnings situation

In 2004, Sunways generated the first positive annual result after the stock exchange listing. Sales rose by a total of 73 percent against the prior year. Thus Sunways was able to fully participate in the market

Consolidated Balance Sheet

	2004		2003		2002	
	k€	%	k€	%	k€	%
Assets						
Liquid funds	14,169	35	2,597	12	4,132	15
Other current assets	10,302	26	9,038	37	11,076	41
Fixed assets	12,190	30	8,108	33	8,135	30
Deferred taxes	3,731	9	4,593	19	3,648	14
Total assets	40,392	100	24,336	100	26,992	100
Liabilities and shareholders' equity						
Current liabilities	11,004	27	5,796	24	6,288	23
Long-term liabilities	13,526	34	4,553	19	5,285	20
Shareholders' equity	15,863	39	13,987	57	15,419	57
Total liabilities and shareholders' equity	40,392	100	24,336	100	26,992	100



growth in 2004. The gross margin improved substantially. This was inter alia due to the high utilization rate of production capacities and the strong increase in sales of solar inverters. Working capital was again markedly reduced against the prior year, a fact that is also reflected in changes in inventories (–€ 2,059 thousand). The increase in personnel expenses to € 5,219 thousand (plus 13 percent) reflects higher staff costs for the expansion of the research and development as well as distribution activities. Personnel expenses also include performance-related remuneration components initially recorded in the fiscal year 2004.

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

Depreciation and amortization rose in line with the additional investments effected in previous years.

The financial result also includes the interest relating to the convertible bond issue and thus slightly rose against the prior year. The interest expense on bank loans was reduced as a result of scheduled redemption payments.

Consolidated Income Statement

	2004		2003		2002	
	k€	%	k€	%	k€	%
Sales	66,925	103	38,740	105	25,766	94
Changes in inventories	–2,059	–3	–1,950	–5	1,662	6
Gross performance	64,866	100	36,790	100	27,428	100
Cost of materials	–50,596	–78	–30,233	–82	–22,275	–81
Gross margin	14,270	22	6,557	18	5,153	19
Personnel expenses	–5,219	–8	–4,608	–13	–3,853	–14
Other operating expenses and income	–4,082	–6	–2,626	–7	–1,926	–7
Earnings before interest, taxes, depreciation and amortization (EBITDA)	4,969	8	–676	–2	–626	–2
Depreciation and amortization	–1,847	–3	–1,470	–4	–1,154	–4
Earnings before interest and taxes (EBIT)	3,122	5	–2,146	–6	–1,779	–6
Financial result	–437	–1	–314	–1	–436	–2
Earnings before taxes (EBT)	2,685	4	–2,461	–7	–2,215	–8

F. Research and development

Sunways maintains technological leadership

In addition to large national and international research projects, the research and development activities in the solar cell area in the fiscal year 2004 mainly related to the development of new niche products for special customer applications. For example, initial samples of a new semi-transparent crystalline solar cell were produced, a further development of the Transparent Sunways Solar Cell. With this new solar cell, homogenous transparent modules can be produced for façade integration. This area of the application of photovoltaics is promoted under the Renewable Energies Act (Erneuerbare-Energien-Gesetz – EEG) by means of extremely attractive energy feeding rates. Therefore, we consider the building integration segment a promising market.

The new solar cells achieved efficiency rates of more than 13 percent and a transparency of 10 percent. The serial production of black, monocrystalline solar cells started as planned in 2004. Compared to multicrystalline cells, these black solar cells are highly aesthetic and have markedly higher efficiency rates. The average efficiency rate of this new type of solar cell

was 16.3 percent, the peak rate 17 percent as of the end of 2004.

As in the case of other solar cells, Sunways AG mainly focuses on long-term customer earnings and high product quality in this area. Due to the possibility to produce optically homogenous, reflecting solar cells, new markets for niche applications will be opened up to Sunways AG.

In the field of Solar Inverters, the development division addressed the optimization and further development of the NT 6000/4000/2600 inverter family in the fiscal year 2004. The target here was mainly to further increase the production quality standard and to optimize major inverter components to enable us to further increase the efficiency rate of our inverters in the future.

Extensive tests indicated possibilities to increase the efficiency of inverters to more than 97 percent. In view of these inverters with the world's best efficiency rates, we will be able to further expand our market position. Another development was initiated in 2004 with the aim of adapting the transformerless NT inverter family to the new module generation.



G. Environmental protection

Environmental protection beyond the standards required by law

At its production facilities in Constance, the Company utilizes state-of-the-art technologies, also in the environmental protection sector.

Sunways has been working with a modernized chemical supply unit in the solar cell production since 2004. The former consumption in our wet-chemical process for cleaning the delivered silicon wafers was reduced by up to 80 percent with respect to individual chemicals. Less waste is produced and has to be disposed of as hazardous waste. In addition, there are significant cost-savings in the area of materials used.

This example shows how a better eco-balance of the Company simultaneously reduces costs. We expect the relevant investments to pay off by the end of 2005.

The environmental protection know-how acquired at the Constance location is also implemented at the Arnstadt production plant currently under construction.

H. Risk Report 2004

1. Major risks

The term "risk" describes the possibility of unfavorable developments in the future the occurrence of which is likely, although not to a large extent. The order of the following presentation is not meant to be a weighting of risks by their impact on the Company or the probability of their occurrence. In addition to the risks and uncertainties described below, the Company may be subject to various other risks and uncertainties which are presently unknown or deemed to be insignificant. 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.

Dependence on a limited number of production lines

The Company currently has only one production line on which its various types of solar cells are produced. The construction of further production lines is planned to occur gradually over the next few years.



The Company may be unable to meet its agreed delivery obligations, be subject to compensation claims, or permanently lose customers if individual components of its production line should fail and it is partially or completely impossible to rapidly repair these components, procure replacement equipment, switch to other equipment or make up for downtime.

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 2004, sales to the ten largest customers accounted for approximately 100 percent (prior year: 92 percent) of total sales in this business segment. In this context, one should, however, bear in mind that a growing portion of the solar cells is now 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 77 percent (prior year: 59 percent) of total sales. Sales in this segment are generated with a markedly larger number of customers.

Risks relating to accounts receivable

Sunways 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. Nevertheless, accounts receivable may be subject to collectibility risks with respect to individual clients.



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 four major suppliers. Even though there are practically unlimited amounts of silicon, in the form of quartz sand, on earth and the Company has contractually secured the wafers expected to be necessary to meet its production capacity in 2005, 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.

Overall economic development, 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 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.



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

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.

I. 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 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 develop-

ment 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

In early 2005, Sunways AG entered into a supply agreement for solar cells with Solarwatt GmbH, Dresden. The agreement covers the delivery of mono- and multi-crystalline Sunways solar cells with a capacity of 16 MW in 2005. This corresponds to about 80 percent of the solar cell production of Sunways AG, including the expected production volume of Sunways Production GmbH.

L. Outlook

Indications of growth

The economic research institutes anticipate moderate upward trends in the worldwide economic development for 2005. The overall economic capacity utilization is expected to increase in most industrialized nations and to result in a growth of the gross national product worldwide.

In the photovoltaics industry, the experts again anticipate a further strong market growth in 2005. Further substantial growth is expected in particular in Germany, our major sales market.

After the significant rise in sales in 2004, Sunways strives for another two-digit increase in 2005. We will further optimize

the production of solar cells in order to again markedly increase the production capacity at the Constance plant.

We expect the first solar cells from the new Arnstadt production plant in the second half of 2005. We also intend to increasingly meet the international demand with the solar cells produced in Arnstadt. In the solar systems segment, we will, in particular, further expand our market share in the area of Solar Inverters and supplement the product family.

Now that the first overall positive result was generated in 2004 thanks to the continuous growth of Sunways AG, we want to continue on this path and further improve our result in 2005. Despite the start-up costs for the expansion of the new production plant in Arnstadt/Thuringia, we will again achieve a positive result in the fiscal year 2005.

Report of the Supervisory Board



**Ladies and gentlemen,
dear shareholders,**

The fiscal year 2004 was a very successful one for Sunways AG. The Company benefited from the positive development of the photovoltaics industry at an above-average rate. Sales in all product segments increased enormously, the dynamic growth of Sunways AG continues. In 2004, the Company generated a positive result in all four quarters.

With the new production plant in Arnstadt/Thuringia, the construction of which was resolved and started in 2004, the Company will reach a new scale. Additional production capacities of 30 MWp will be available at the new plant in the second half of 2005. The overall capacity at the Constance plant, which had been more than doubled by the end of 2003 from 5 to 12 MWp and expanded to 16 MWp by the end of 2004, will now reach a total of 46 MWp when combined with that of the Arnstadt plant as of the end of 2005. Thanks to the growth strategy it has chosen, the Company is well prepared to meet the requirements of the market as to quality and quantity.

The members of the Supervisory Board of Sunways AG have always seen themselves as an active executive body. Within the framework of its supervisory duties, the Supervisory Board is not only provided with regular information by the Company's management but also continuously supports the latter as a sparring partner and coach. In the performance of the tasks prescribed by law, each member of the Supervisory Board contributes his own competence and experience towards the Company's benefit.



In 2004, the Supervisory Board held seven ordinary and five extraordinary meetings. A conference with the Management Board focusing on the 2005 budget and medium-term strategy was held at the end of November. The major issues addressed by the Supervisory Board in 2004 were the erection and funding of the new production plant in Arnstadt. Consequently, the sole subject of three out of five extraordinary meetings was the convertible bond issue successfully placed in October to finance the Arnstadt production plant, together with the necessary decisions and resolutions.

The audit committee of the Supervisory Board held four meetings in the fiscal year 2004. In addition to the usual accounting and risk management matters, strategic corporate management was also addressed. The committee continues to be composed of Heinz W. Bull, chairman, as well as Ernst Haug and Dr. Roland R. Bahr.

The financial statements and management report 2004 of Sunways AG as of 31 December 2004, including the consolidated financial statements and the Group management report, were prepared by the Management Board in due time. The auditors appointed by the annual general meeting in 2004, WPG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Tübingen, have audited the same, together with the accounting, and given their unqualified opinion.



The financial statements of Sunways AG and of the Group as well as the combined management report of Sunways AG and the Group were discussed at length, reviewed and approved of by all members of the Supervisory Board in the presence of the auditors. At its meeting on 14 March 2005, the Supervisory Board has confirmed the auditors' results. Thus the financial statements for the fiscal year 2004 have been adopted in accordance with § 172 of the Stock Corporation Act (AktG). Simultaneously, the Supervisory Board has resolved to approve of the appropriation of the accumulated loss proposed by the Management Board.

Supervisory Board member Manfred Schulz retired from office with effect as of 30 April 2004 due to his challenging workload. He had been a member of the Supervisory Board since 14 May 2002. The Supervisory Board would like to express its thanks to Manfred Schulz for his commitment and valuable cooperation. The general meeting on 6 May 2004 appointed Frank Wehking as his successor on the Supervisory Board. As a bank manager, he will contribute his considerable experience to our committee, in particular in the areas of capital market-based corporate funding and distribution.

Franz Heim retired from office for personal reasons with effect as of 31 January 2005. Our Company always greatly benefited from Franz Heim's activities as a co-founder of Sunways AG, former chairman of the Management Board and member of the Supervisory Board. He will continue to be associated with the Company as a major shareholder. The Supervisory Board would like to express its thanks to Franz Heim for his excellent development work and wishes him all the best for his new career plans. The Supervisory Board will propose to the 2005 general meeting a qualified candidate as successor to Franz Heim.



The Supervisory Board would like to thank all employees and Management Board member Roland Burkhardt for the successful work in the fiscal year 2004 and their extraordinary commitment. In a dynamic growth market, it will continue to be important to make the right decisions and to dedicate our very best efforts to the Company. In 2005, the employees, the Management Board and the Supervisory Board will jointly strive to keep Sunways AG on its growth path, to further increase its profitability and to set the course for the future.

The Supervisory Board would also like to express its thanks to all shareholders and investors who have been holding an interest in Sunways AG – in some cases for more than five years. Their trust and loyalty form the basis that enables the Company to continue its innovative and dynamic development.

Constance, March 2005

A handwritten signature in black ink, appearing to be 'R. Bahr', written in a cursive style.

Dr. Roland R. Bahr
Chairman of the Supervisory Board

Corporate Governance



Compliance statement pursuant to § 161 of the German Stock Corporation Act (AktG) relating to the German Corporate Governance Code (Deutscher Corporate Governance Kodex – CGK) as amended on 21 May 2003

1. The Management Board and Supervisory Board of Sunways AG declare that, with the following exceptions, the recommendations of the Government Commission German Corporate Government Code (“Regierungskommission Deutscher Corporate Governance Kodex”) published in the fiscal year 2004 by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette have been complied with:
 - a) 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).
 - b) Number of members of the Management Board, Chairman of the Management Board
The Management Board of Sunways AG is comprised of one person (item 4.2.1 of the Code).
 - c) Remuneration to the members of the Supervisory Board
The members of the Supervisory Board of Sunways AG only receive a fixed remuneration. The remunerations paid by the Company to members of the Supervisory Board and remunerations for services provided in person are specified – on a non-individual basis – in the notes to the consolidated financial statements. With respect to such remuneration, chairmanships and memberships on committees were disregarded (item 5.4.5 of the Code).



2. The Management Board and Supervisory Board of Sunways AG furthermore declare that, with the following exceptions, the recommendations of the Government Commission German Corporate Government Code (“Regierungskommission Deutscher Corporate Governance Kodex”) published by the Federal Ministry of Justice in the official section of the Electronic Federal Gazette will be complied with in the future:

a) Deductible with respect to D & O insurance

No deductible will be provided for in the future 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).

b) Number of members of the Management Board, Chairman of the Management Board

The Management Board of Sunways AG is comprised of one person (item 4.2.1 of the Code).

c) Remuneration to the members of the Supervisory Board

The members of the Supervisory Board of Sunways AG only receive a fixed remuneration. The remunerations paid by the Company to members of the Supervisory Board and remunerations for services provided in person are specified – on a non-individual basis – in the notes to the consolidated financial statements. With respect to such remuneration, chairmanships and memberships on committees were disregarded (item 5.4.5 of the Code).

The Company’s Corporate Governance Principles adopted as of 28 March 2003 partly go beyond the recommendations of the Code.

Constance, March 2005

The Management Board

The Supervisory Board

Sunways Production GmbH – Expansion to Secure the Future



“Solar technology is a future-oriented technology. One of the few solar clusters of Germany has been created in the area around Arnstadt and Erfurt – Sunways will be exactly in the right place.”

Jürgen Reinholz, Minister of Trade and Commerce of the State of Thuringia

The foundations of the further expansion of Sunways AG were laid on 29 November 2004 with the symbolic cut of the spade in Arnstadt/Thuringia: The solar cell production plant that is being erected there, Sunways Production GmbH, will form the basis of our future growth.

We will produce large numbers of mono- and multicrystalline Sunways Solar Cells of proven high quality from the summer 2005 onwards.

We will rely on the know-how acquired in Constance and our longstanding experience. Thus we will be able to save costs in Arnstadt and markedly increase the efficiency and productivity of the manufacturing process.

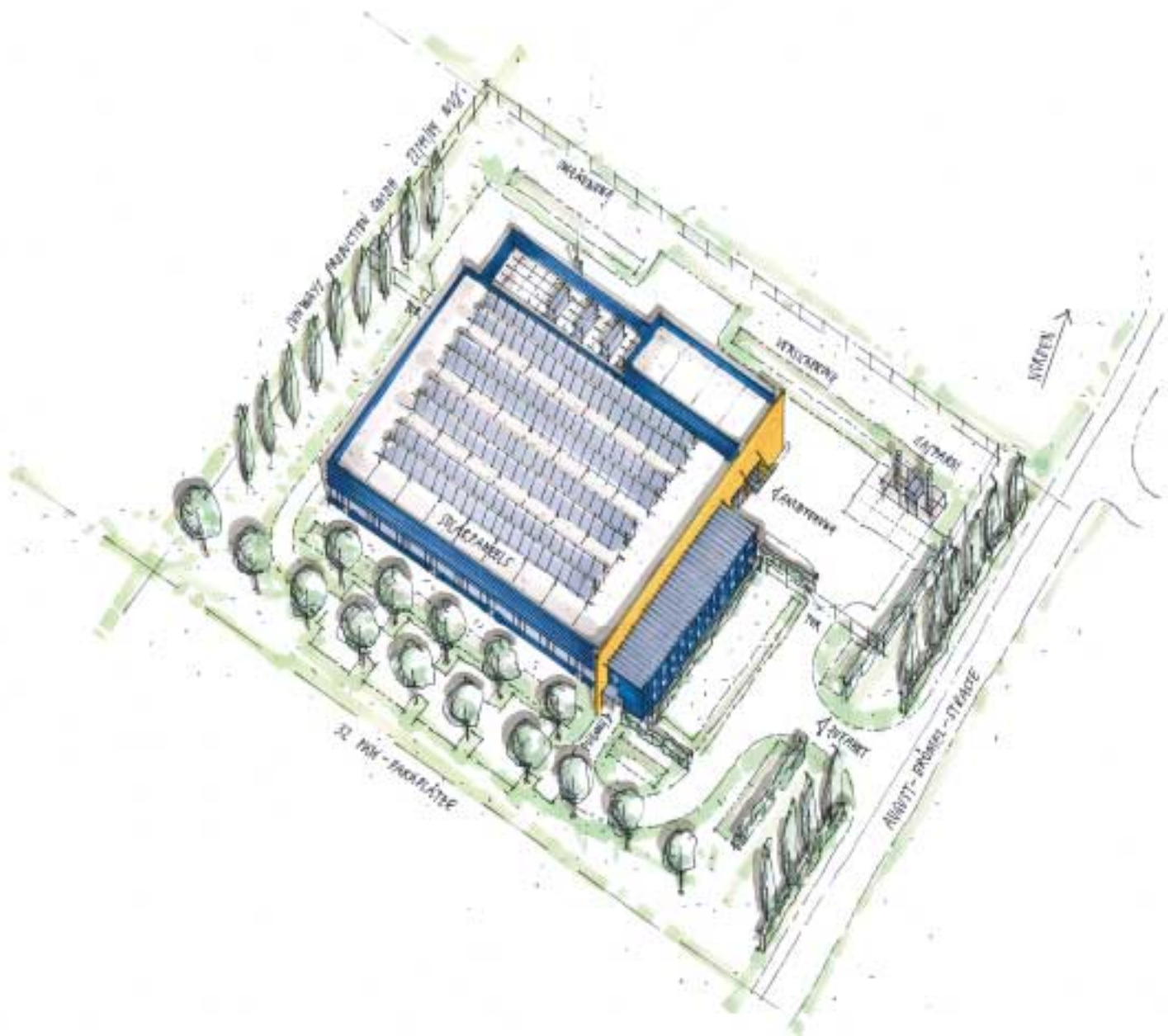
In Arnstadt we will be in good company: Two wafer producers, the SolarZentrum of the CiS Institut für Mikrosensorik in Erfurt, a solar cell manufacturer and a module producer have already made the location a photovoltaics center.

The selection of this location was not least influenced by the positive attitude of the State Government of Thuringia towards future-oriented energy and environmental technologies.

The plant will have a capacity of 30 MWp and will more than triple our production capacity from 16 to over 46 MWp per year. Full production capacity will be reached in early 2006; potential expansions up to 80 MWp are already envisaged. Thus we will participate in the solar market's further growth and expand our market position.

This so far largest individual investment of our corporate history in the amount of 22 million Euro will be funded by a convertible bond issue, investment grants and bank loans.

60 qualified jobs will be created at Sunways Production GmbH. In addition, we will give two apprentices an opportunity to be trained in a profession in a future-oriented industry segment.



Plan drawing of the new production plant
Sunways Production GmbH, Arnstadt/Thuringia

Consolidated Balance Sheet as of 31 December 2004

	Notes	31/12/2004	31/12/2003
		k€	k€
Assets			
Current assets			
Liquid funds	C.1.	13,114	2,222
Marketable securities	C.2.	1,055	375
Trade receivables	C.3.	3,644	1,891
Inventories	C.4.	5,437	6,411
Prepayments and accrued income and other current assets	C.3.	1,221	736
Total current assets		24,471	11,635
Tangible fixed assets	C.5.	10,713	6,131
Intangible assets	C.6.	1,235	1,651
Financial assets	C.7.	20	20
Goodwill	C.6.	222	305
Deferred taxes	C.8.	3,731	4,593
Total assets		40,392	24,336
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans and current portion of long-term loans	C.10.	756	1,247
Trade payables	C.9.	7,959	2,878
Prepayments received		69	0
Provisions	C.10.	1,460	1,050
Income tax payable	C.10.	287	52
Other current liabilities	C.10.	473	569
Total current liabilities		11,004	5,796
Long-term liabilities			
Bonds	C.11.	9,618	0
Long-term loans	C.11.	3,256	4,035
Deferred taxes	C.8.	652	518
Total long-term liabilities		13,526	4,553
Shareholders' equity			
Subscribed capital	C.12.	9,514	9,514
Capital reserve		14,650	14,328
Accumulated profit/loss		-8,302	-9,855
Total shareholders' equity		15,863	13,987
Total liabilities and shareholders' equity		40,392	24,336

Possible rounding differences.

Consolidated Income Statement for the Fiscal Year 2004

	Notes	01/01 to 31/12/2004	01/01 to 31/12/2003
		k€	k€
Sales	D.1.	66,925	38,740
Changes in inventories of finished and unfinished goods		-2,059	-1,950
Gross performance		64,866	36,790
Other operating income	D.2.	275	890
Cost of materials		-50,596	-30,233
Personnel expenses		-5,219	-4,608
Depreciation and amortization	D.3.	-1,847	-1,470
Other operating expenses	D.4.	-4,357	-3,512
Operating result (EBIT)		3,122	-2,146
Interest income/expenses	D.5.	-437	-314
Result before taxes		2,685	-2,461
Taxes on income	D.6.	-1,132	860
Consolidated net income/loss		1,553	-1,600
Earnings per share/€ (diluted=undiluted)		0.16	-0.17
Average number of shares outstanding		9,514,070	9,514,070

Possible rounding differences.

Changes in Shareholders' Equity from 1 January to 31 December 2004

	Subscribed capital	Reserves	Profit/loss brought forward	Total
	k€	k€	k€	k€
1 January 2003	9,514	14,160	-8,255	15,419
Cost of capital increase against contribution in kind (after tax)		-9		-9
Revaluation of marketable securities		177		177
Net loss			-1,600	-1,600
31 December 2003	9,514	14,328	-9,855	-13,987
31 December 2003/1 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

Possible rounding differences.

Consolidated Cash-Flow Statement for the Fiscal Year 2004

	01/01 to 31/12/2004	01/01 to 31/12/2003
	k€	k€
Operating activities		
Operating result (EBIT)	3,122	-2,146
Adjustments for:		
Income tax receivable/payable (-)	49	-32
Depreciation and amortization	1,847	1,470
Book gains (-)/losses from disposal of fixed assets	112	-1
Operating result before changes in net current assets	5,130	-709
Changes in assets and liabilities		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-2,287	1,680
Increase (-)/decrease in inventories	974	359
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	5,416	-752
Cash provided by operating activities	9,233	578
Investment activities		
Purchase of fixed assets	-6,042	-1,611
Cash provided by the disposal of fixed assets	0	170
Cash used for investment activities	-6,042	-1,441
Financing activities		
Cash provided by/used for (-) bonds	9,618	0
Cash provided by/used for (-) long-term loans	-779	-734
Cash provided by/used for (-) short-term loans	-490	209
Contributions to subscribed capital and capital reserves	323	168
Cash provided by/used for (-) interest payments	-290	-314
Cash provided by/used for (-) financing activities	8,381	-671
Net increase/(-) decrease of liquid funds	11,573	-1,535
Cash and cash equivalents at the beginning of the reporting period	2,597	4,132
Cash and cash equivalents at the end of the reporting period	14,170	2,597
Composition of liquid funds at the end of the reporting period		
Marketable securities	1,055	375
+ Cash	13,114	2,222
	14,170	2,597

Possible rounding differences.

Notes to the Consolidated Financial Statements (IAS) of Sunways AG, Constance, as of 31 December 2004

A. General information, preparation principles and premises

Sunways Aktiengesellschaft has its registered office in Constance 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 multicrystalline 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 2004. The consolidated financial statements were prepared in accordance with § 292a of the Commercial Code (HGB) as well as with the rules and regulations of the Frankfurt Stock Exchange for the "Prime Standard" trading segment in compliance with the International Financial Reporting Standards (IFRS). Pursuant to § 292a HGB, the consolidated financial statements are operative as a discharge.

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 (IAS) applicable as of the balance sheet date. Similarly, the interpretations of the Standard Interpretations Committee (SIC) published on the balance sheet date are taken into account.

Effective as of 1 January 2005, the framework principles were amended. These amendments have not been complied with in these financial statements. The amendments are 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 2004:

Company	Registered office	Shareholders' equity	Equity interest
		as of 31/12/2004/k€	as of 31/12/2004/in %
Sunways Production GmbH	Arnstadt, Germany	4,097	100
MHH Solartechnik GmbH	Tübingen, Germany	594	100

Sunways Production GmbH is a newly founded subsidiary of Sunways AG in Arnstadt/Thuringia. It will start to produce solar cells in 2005.

MHH Solartechnik GmbH, Tübingen (hereinafter also "MHH") is mainly active in the areas of distribution of solar systems as well as planning and implementation of large solar projects. The 33.3 percent equity stake in Beteiligungsanlage für Solarstrom Villingen-Schwenninngen 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. The resulting goodwill has been capitalized and written off using the straight-line method over an estimated useful life of 5 years.

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. Until 2003, in case of any difference between the market value and the acquisition cost as of the balance sheet date, unrealized profits and losses were included in shareholders' equity in accordance with IAS 39 without affecting income. The resulting losses realized in 2004 amounted to € 149 thousand. In contrast with the method applied in previous years, unrealized profits and losses as of 31 December 2004 were included in the income statement affecting the result pursuant to IAS 39. The valuation method was changed in order to make the financial statements more transparent. The unrealized valuation losses recorded in the 2004 income statement affecting the result amounted to € 2 thousand.

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

	31/12/2004	31/12/2003
	k€	k€
Trade receivables	3,644	1,891
Other assets and prepayments and accrued income	1,221	735
Total	4,865	2,626

Possible rounding differences.

All receivables and other assets have a remaining term of below one year. Prepayments and accrued income include discounts of € 26 thousand.

Trade receivables are recorded at their nominal value. Sufficient account has been taken of risks of default by way of allowances. Such allowances amounted to € 15 thousand as of 31 December 2004.

Receivables in foreign currencies are translated in accordance with IAS 21.9 at the rate prevailing on the transaction date and subsequently valued at the rate of the balance sheet date in accordance with IAS 21.11. No substantial foreign currency receivables existed on the balance sheet date.

Other assets and prepayments and accrued income are recorded at their nominal value. These are essentially claims to sales tax refunds (€ 326 thousand), claims to promotion funds (€ 225 thousand) and accrued interest (€ 58 thousand) as well as capitalized transaction costs relating to a convertible bond issue (€ 425 thousand).

4. Inventories

	31/12/2004	31/12/2003
	k€	k€
Raw materials and supplies	1,538	1,403
Work in progress	404	840
Finished goods and merchandise	3,495	4,125
Prepayments made	0	43
Total	5,437	6,411

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 of between two and ten 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 17.3, i. e. "finance leases", existed in the reporting period. Major additions, with respect to buildings, 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 plant and office equipment, the additions relate essentially to EDP hardware, communication equipment and other office equipment.

As of the end of the fiscal year 2004, a wet chemical installation was replaced at the Constance plant in connection with an expansion investment. The remaining book value of the installation of € 112 thousand was accounted for as a disposal of assets and recorded under other operating expenses.

Changes in tangible fixed assets in 2004 are shown in the consolidated changes in fixed assets.

6. Intangible assets

Intangible assets purchased are carried at acquisition costs plus costs 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 4½ and ten years. Goodwill from capital consolidation is depreciated using the straight-line method over a useful life of five years affecting income.

In addition to goodwill from capital consolidation, the goodwill item includes goodwill with respect to Ingenieurbüro für Solartechnik Konstanz acquired in 1996 (€ 12 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 € 106 thousand in the reporting period; € 51 thousand of this amount related to the development of a data communication device complementing the Solar Inverter product family NT 2600, NT 4000 and NT 6000. Costs of € 6 thousand and € 48 thousand, respectively, were capitalized for the development of a 125 x 125 mm black solar cell based on monocrystalline material and a black solar cell for automotive applications. Valuation was based on IAS 38, subparagraph 53 et seq. The cost of external funding was not included. The capitalized costs attributable to the relevant projects on an individual basis are depreciated from the start of their commercial use. Depreciation is effected over the estimated useful life of generally five years; in 2004 such depreciation amounted to € 486 thousand.

Other additions primarily relate to EDP software. No material disposals were recorded in the period under review.

Changes in intangible assets in 2004 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	Equity interest
		as of 31/12/2004/in k€	as of 31/12/2004/in %
Beteiligungsanlage für Solarstrom GbRmbH	Villingen-Schwenningen, Germany	n. a.	33.3
Solarcomplex GmbH	Singen, Germany	720	1.73

The valuation was in each case based on acquisition costs.

Changes in financial assets in 2004 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 2004, there were the following differences:

	Deferred taxes as of 31/12/2004			Deferred taxes as of 31/12/2003		
	Difference	Assets	Liabilities	Difference	Assets	Liabilities
	k€	k€	k€	k€	k€	k€
Inventories	51	19		-60	23	
Prepayments and accrued income	424		-161			
Intangible assets	908		-344	1,288		-490
Marketable securities	2		-1	75		-28
Equity component convertible bonds	382		-146			
Losses brought forward	-14,618	5,555		-16,877	6,413	
Write-off of losses brought forward prior to 2001		-1,843			-1,843	
Total		3,731	-652		4,593	-518

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 2004. 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 € 3,712 thousand (prior year: € 4,570 thousand) as of 31 December 2004. 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 € 4,013 thousand (transfer by way of security of assets, assignment of trade receivables, transfer by way of security of 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 6 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 10.

	01/01/2004	Withdrawals	Reversals	Additions	31/12/2004
	k€	k€	k€	k€	k€
Invoices received and outstanding	442	-433	-9	577	577
Personnel expenses	367	-209		205	363
Warranties	73	-16		189	246
Costs of financial statements and audit	45	-45		44	44
Remuneration to the Supervisory Board	43	-31		46	58
Annual report	30	-10		0	20
Employers' liability insurance association	31	-31		35	35
Other	19	-19		117	117
Total	1,050	-794	-9	1,213	1,460

Possible rounding differences.

Liabilities in foreign currencies are translated at the exchange rate prevailing on the transaction date pursuant to IAS 21.9 and 11 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 1 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.

	k€
Nominal amount of the convertible bonds issued	10,000
Equity component (net of deferred taxes)	-248
Deferred tax liability	-152
Debt component at the time of subscription	9,600
Interest expense 2004	17
Debt component as of 31/12/2004	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 4.8 percent. Other long-term loans as of 31 December 2004 include a 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. Shareholders' equity

Share capital

As of 31 December 2004, the Company's share capital remained unchanged against the prior year at € 9,514,070, divided into 9,514,070 non-par value shares to bearer with a notional share in the total share capital of € 1.00 each.

Authorized capital

A resolution of the extraordinary general meeting held on 20 December 2000 authorized the Management Board, with the consent of the Supervisory Board, to increase, on one or more occasions, the Company's registered share capital by up to € 4,600,000 through the issuance of up to 4,600,000 non-par value shares to bearer for cash and/or in-kind contributions (authorized capital) until 19 December 2005. Following the implementation of the capital increase by € 314,070 for the acquisition of the remaining shares in MHH Solartechnik GmbH, Tübingen, in 2002, the remaining authorized share capital amounted to € 4,285,930.

By resolution of the ordinary general meeting of 6 May 2004, this authorized capital was cancelled and a new authorized capital in the amount of € 4,757,035 was created.

The Management Board is authorized to issue up to 4,757,035 non-par value shares to bearer for cash and/or in-kind contributions on one or more occasions. 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

Also pursuant to a resolution of the general meeting held on 20 December 2000, a conditional capital of € 400,000 was created to satisfy share option rights under the Company's employee participation program. A total of 296,600 share options were outstanding as of 31 December 2004.

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 5 May 2009, to issue bearer or registered convertible bonds and/or bonds with warrants in an aggregate nominal amount of up to € 30,000,000 and with a maturity of no more than 20 years and to grant to the holders conversion or option rights for shares in Sunways AG in a pro rata capital amount of up to € 4,357,035 as provided for in detail in the conditions of issue of the convertible bonds or bonds with warrants.

D. Notes to the consolidated income statement

The income statement was prepared using the total cost method.

1. Sales

	2004	2003
	k€	k€
Solar cells	21,705	15,222
Solar systems	45,754	24,803
Consolidation	-534	-1,284
Total	66,925	38,740

Domestic sales amounted to € 63,589 thousand (prior year: € 34,200 thousand). International sales (inter alia Switzerland, Austria, the Netherlands, Italy, Spain, Sweden, Japan) were € 3,336 thousand (prior year: € 4,297 thousand).

2. Other operating income

Other operating income was mainly generated from the provision of state aid for research projects included in expenses (€ 199 thousand).

3. Depreciation and amortization

Depreciation and amortization includes amortization of goodwill in the amount of € 83 thousand whereof € 81 thousand relates to goodwill from subsequent consolidation.

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 € 233 thousand (prior year: € 75 thousand). Interest and similar expenses amount to € -670 thousand. This item includes exchange losses and similar expenses of € -149 thousand (prior year: € -118 thousand) as well as additional interest expenses relating to the debt component of the convertible bonds in the amount of € -17 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 2004 was approximately 38 percent.

In 2004, taxes on income were € 287 thousand (prior year: € 32 thousand). Deferred tax liabilities amounted to € 845 thousand (prior year: tax assets of € 897 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:

	2004	2003
	k€	k€
Losses brought forward for tax purposes	-858	924
Transaction costs convertible bonds	-161	0
Intangible assets	144	-72
Additional interest expense convertible bonds	6	0
Marketable securities	27	24
Inventories	-3	21
Deferred tax assets (+)/liabilities (-)	-845	897

Possible rounding differences.

The determination of deferred taxes was based on a 38 percent tax rate.

The reconciliation of fictitious tax expense and actual tax expense is shown below:

	k€	k€
Net income before taxes	2,685	-1,020
Marketable securities		-29
Non-deductible amortization of goodwill		-31
Adjustment of losses brought forward		-43
Other		-7
Tax expense according to the income statement		-1,132

Possible rounding differences.

7. Development costs

The development costs recorded as expenses in the fiscal year 2004 amounted to € 1,495 thousand of which € 736 thousand related to personnel expenses and € 544 thousand to depreciation, including depreciation of the development costs capitalized in prior years (€ 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 break-down 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).

	2004				2003			
	Solar cells	Solar systems	Consolidation	Total	Solar cells	Solar systems	Consolidation	Total
	k€	k€	k€	k€	k€	k€	k€	k€
Sales	21,705	45,754	-534	66,925	15,221	24,803	-1,284	38,740
EBITDA	521	4,448		4,969	-401	-373		-774
Depreciation and amortization	-1,534	-313		-1,847	-1,211	-259		-1,470
EBIT	-1,013	4,135		3,122	-1,596	-550		-2,146
Segment assets	33,084	7,308		40,392	19,654	4,682		24,336
Segment liabilities	20,641	3,889		24,530	7,864	2,485		10,349
Investments	5,872	214		6,086	1,416	277		1,693

Possible rounding differences.

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

	2004				2003			
	Solar cells	Solar systems	Consolidation	Total	Solar cells	Solar systems	Consolidation	Total
	k€	k€	k€	k€	k€	k€	k€	k€
Germany	18,905	45,218	-534	63,589	13,492	22,267	-1,284	34,474
Rest of Europe	2,550	532		3,082	1,599	2,536		4,135
Asia	250	4		254	130			130
America	0			0	1			1
Total	21,705	45,754	-534	66,925	15,222	24,803	-1,284	38,740

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 2004".

G. Earnings per share

	2004	2003
Result for the year/Thousands of €	1,553	-1,600
Number of shares (weighted)	9,514,070	9,514,070
Earnings per share/€	0.16	-0.17

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. The Management Board and Supervisory Board propose not to distribute any dividend for the year 2004.

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. Other information

1. Related-party relations

The following persons, groups of persons and companies are deemed related parties at 31 December 2004: Members of the Management Board and Supervisory Board of Sunways AG.

No facts arising in the fiscal year 2004 were subject to any reporting requirements.

2. Contingent liabilities

There were no material contingent liabilities on the balance sheet date.

3. Other financial obligations

	k€
Due in 2005	446
Due in 2006 through 2009	858
Due in 2010 and later	0
Total	1,304

Other financial obligations mainly relate to tenancy contracts. The share of obligations under lease contracts (operating leases) is small and amounts to € 35 thousand for the fiscal year 2005.

As of the balance sheet date, there were other financial obligations of Sunways AG, Constance, under machinery supply contracts amounting to € 888 thousand.

The financial obligations of Sunways Production GmbH under supply contracts entered into amounted to € 8,221 thousand.

4. Employees

At year-end, Sunways employed a staff of 117, including the members of the Management Board (prior year: 108).

As an additional incentive and for the long-term attraction of qualified employees, the Company 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 € 400,000 was created for the provision of share option rights to the Company's Management Board members and employees and for members of the management and employees of companies associated with the Company within the meaning of §§ 15 et seq. of the Stock Corporation Act. 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 expiry 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 in 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, 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 in the electronic XETRA trading system or any subsequent system. Subject to § 9, subparagraph 1 of the Stock Corporation Act, 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 in 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.

The following share options were granted as of 31 December 2004:

	Number of outstanding share options 31/12/2003	Number of outstanding share options 31/12/2004	Thereof non-lapsable	Total number of share options to be issued
Management Board	10,000	40,000	10,000	120,000
Employees of the Company	92,100	116,600	52,100	160,000
Managing Directors and employees of associated companies	51,000	77,000	27,000	120,000
Total	153,100	233,600	89,100	400,000

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

Tranche	Exercise price (€)	Options issued	Options lapsed	Earliest exercise date	Latest expiration date
2001	10.39	74,100		2005	2006
2002	4.14	70,000	13,000	2005	2007
2003	1.75	59,000	37,000	2005	2008
2004	1.91	93,500	13,000	2006	2009
Total		296,600	63,000		

5. Executive bodies and their shareholdings

In the fiscal year 2004, the member of the Management Board was:

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

The total remuneration of the Management Board of Sunways AG for the fiscal year 2004 amounted to € 211 thousand, consisting of a fixed remuneration of € 153 thousand and a performance-related variable component for which a provision of € 58 thousand was established. In the fiscal year 2004, 30,000 options with an exercise price of € 1.91 were issued to the member of the Management Board pursuant to the terms of the employee share option plan.

Members of the Supervisory Board in the fiscal year 2004 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
- Manfred J. Schulz, Dipl.-Betriebswirt, Überlingen (until 30 April 2004)
- Frank Wehking, Dipl.-Kaufmann, Hofheim/Taunus (from 1 May 2004)

Provisions were made in the amount of € 46 thousand with respect to total remunerations of the Supervisory Board of Sunways AG for the fiscal year 2004. The members of the Supervisory Board receive a fixed remuneration.

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 2004:

	Shares as of 31/12/2004	Options as of 31/12/2004	Shareholding (%)
Management Board			
Roland Burkhardt	1,730,345	40,000	18.19
Supervisory Board			
Dr. Roland R. Bahr, chairman	9,902		
Otto Mayer, deputy chairman	760,000		7.99
Heinz W. Bull	0		
Ernst Haug	3,695		
Franz Heim	937,690		9.86
Manfred J. Schulz	0		
Frank Wehking	0		

In addition to the above holdings of members of the executive bodies, no other shareholdings are known that are subject to the reporting requirements under § 21 of the Securities Trading Act (WphG). These consolidated financial statements were released for publication by the Management Board on 14 March 2005.

Constance, 14 March 2005

Roland Burkhardt
Management Board

Changes in Fixed Assets in the Consolidated Financial Statements (IAS) in the Fiscal Year 2004

	At cost				
	01/01	Additions	Transfers	Disposals	31/12
	k€	k€	k€	k€	k€
I. Tangible fixed assets					
1. Real property and equivalent rights and buildings, including buildings on third-party property	1	342	-3	0	341
2. Technical equipment and machinery	8,441	972	136	-222	9,327
3. Other equipment, plant and office equipment	1,218	300	3	-17	1,503
4. Prepayments made and plant under construction	136	4,275	-136	-37	4,239
Total	9,796	5,890	0	-276	15,410
II. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets	780	90	0	0	869
2. Development costs	1,681	106	0	0	1,787
3. Goodwill	436	0	0	0	436
Total	2,896	195	0	0	3,092
III. Financial assets					
Equity interests	20	0	0	0	20
Total	20	0	0	0	20
Total	12,712	6,086	0	-276	18,522

Possible rounding differences.

Accumulated depreciation				Book values	
01/01	Additions	Disposals	31/12	31/12/2004	31/12/2003
k€	k€	k€	k€	k€	k€
1	0	0	1	339	1
2,963	943	-112	3,793	5,534	5,478
701	209	-8	902	601	517
0	0	0	0	4,239	136
3,664	1,152	-120	4,697	10,713	6,131
417	125	0	542	327	363
392	486	0	878	908	1,289
130	83	0	214	222	305
940	695	0	1,635	1,457	1,957
0	0	0	0	20	20
0	0	0	0	20	20
4,604	1,847	-120	6,331	12,190	8,108

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, for the fiscal year from 1 January 2004 to 31 December 2004. The preparation and contents of the consolidated financial statements are the responsibility of the Company's Management Board. Our responsibility is to assess, on the basis of our audit, whether the consolidated financial statements comply with the International Financial Reporting Standards (IFRS).

We have conducted our Group audit pursuant to the German auditing standards and in compliance with the 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 be able to assess with reasonable assurance whether or not the consolidated financial statements are free of material misstatements. In the audit, the evidence of valuations and disclosures in the consolidated financial statements is assessed on a test basis. The audit also includes an appraisal of the accounting 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. We believe that our audit is an adequate basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the asset and financial position and results of operations of the Group and adequately present the cash-flows of the fiscal year in accordance with the IFRS.

Our audit, which also covers the Group management report prepared by the Management Board for the fiscal year from 1 January 2004 to 31 December 2004, did not give rise to any objections. In our opinion, the Group management report gives an overall true and fair view of the Group situation and adequately presents the risks of future development. We also represent that the consolidated financial statements and Group management report for the fiscal year from 1 January 2004 to 31 December 2004 meet the requirements for an exemption of the Company from the obligation to prepare consolidated financial statements and a Group management report under German law.

Tübingen, 4 March 2005

WPG Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Albert Reich
Wirtschaftsprüfer (Auditor)

Kurt Kässmann
Wirtschaftsprüfer (Auditor)

Statement of Independence

As statutory auditors of the financial statements/consolidated financial statements as of 31 December 2004 and of the management report/Group management report for the fiscal year 2004, 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, No. 2 of the Commercial Code (HGB) in conjunction with § 319, subparagraph 2, Nos. 5 and 6 HGB. 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 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.

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 € 8 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, 4 March 2005

WPG Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Albert Reich
Wirtschaftsprüfer (Auditor)

Kurt Kässmann
Wirtschaftsprüfer (Auditor)

Executive Bodies

Supervisory Board

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

Otto Mayer, deputy chairman
Entrepreneur, Tübingen

Ernst Haug
Tax consultant, Constance

Franz Heim
Entrepreneur, Tübingen

Heinz W. Bull
Managing Director of ALTANA Innovationsfonds GmbH, Constance

Other supervisory board memberships:

ALTANA Pharma AG, Constance

Recordati Spa, Milano (Italy)

Tanox Inc., Houston (USA)

Manfred J. Schulz (until 30 April 2004)
Entrepreneur, Überlingen

Frank Wehking (from 6 May 2004)
Diplom-Kaufmann, Hofheim/Taunus

Management Board

Roland Burkhardt

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.
Cash-flow	Increase/decrease 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	Consolidated net income divided by the weighted number of shares
EAT	Earnings after taxes
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
Gross margin	Sales less materials usage
IAS	International Accounting Standards
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 megawatt generates 1,500 MWh in ten hours.
MW/MWp	Megawatt/megawatt peak
Photovoltaics (PV)	Generation of electricity from sunlight
Profit 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.

Regenerative 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 1 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 1 August 2004.
Silicon	Chemical element won from the raw material silicon oxide (sand) and can be made into monocrystalline, multicrystalline 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.
System connected to the network	Solar system connected to the local electricity supply network.
Wafer	Semiconductor slice, approximately 0.2 to 0.5 millimeters thick, used in the production of solar cells
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, it promoted the construction of solar systems throughout Germany.

Corporate Calendar 2005

19 May 2005	General meeting in Constance
19 May 2005	Publication of financial data for the 1st quarter
09 August 2005	Publication of financial data for the 2nd quarter
09 November 2005	Publication of financial data for the 3rd quarter
09 November 2005	Analysts' conference in Frankfurt/Main

We would like to invite you for an exchange of opinions at the following trade exhibitions:

23–25 February 2005	“Genera – 9th Energy and Environment International Trade Fair” in Madrid (Spain)
09–11 March 2005	“20. Symposium Photovoltaische Solarenergie” in Bad Staffelstein (Germany)
19–21 March 2005	“Solarexpo – International Exhibition and Conference on Renewable Energy” in Vicenza (Italy)
06–10 June 2005	“20th European Photovoltaic Solar Energy Conference and Exhibition” in Barcelona (Spain)
23–25 June 2005	“Intersolar” in Freiburg (Germany)

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

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