



Sunways AG, Constance

1st Quarter Report 2005



Sunways AG, Constance

Notes to the Consolidated Interim Financial Statements (IAS) as of 31 March 2005

Highlights

1. Major Events of the First Quarter 2005

- Sales rise by almost 50 percent over the comparable prior year period
- Increase in EBIT to Euro +0.3 million in the first quarter
- Continuously strong demand for photovoltaic products
- Full utilization of production capacities

2. Accounting Principles

This quarterly report was prepared in accordance with the International Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB), respectively, and is in conformity with the major accounting principles presented therein. The accounting and valuation principles applied were the same as for the consolidated financial statements for the fiscal year ended on 31 December 2004.

3. Business Operations

The photovoltaics industry continues to be characterized by strong demand; the demand for photovoltaic products by far exceeds supply. This development results in a continuous flow of incoming orders also at Sunways AG.

Wafer procurement, which may restrict the production of solar cells, is a much discussed topic. Sunways AG has already secured the procurement of this raw material for its entire production in 2005 and beyond.

Although experience shows that the first quarter is the weakest in the solar industry, our first quarter sales rose by almost 50 percent against the comparable prior year period. Thus a positive result before interest and taxes was already generated in the reporting period, i.e. the first positive first quarter result of Sunways AG.

Continuously strong demand



Full utilization of production capacities - further capacity utilization secured

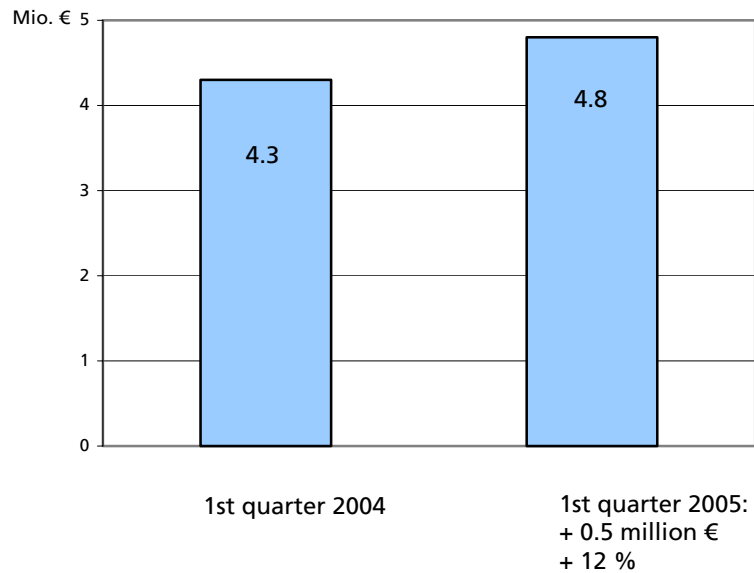
3.1 Solar Cells

The demand in the first quarter 2005 was undiminished. Our total 2005 production capacity has already been sold. We already record a strong demand for significant amounts with respect to the year 2006.

The utilization of our production capacities has been secured for the current year. The presently existing order backlog will last well into the year 2006.

Quarterly comparison:
12 percent rise in sales

Sales



From January to March 2005, sales rose by about 12 percent against the comparable prior year period to 4.8 million Euro (prior year: 4.3 million Euro).

Sunways generated approx. 8 percent of its consolidated sales abroad (prior year: one percent). The domestic demand during this period was so strong that our capacities were not sufficient to further increase the international share.

During the reporting period, we successfully adapted our production to the 156 x 156 mm cell format so that we are in a position to meet sophisticated technological demands of our customers. We were able to start the serial production of this format in the area of mono- as well as multicrystalline solar cells.



Price Development

The price per watt peak has remained almost unchanged. Future price increases due to rising silicon prices cannot be precluded in the solar industry.

Production

We further increased the automation and flexibility of our solar cell production in the first quarter 2005 so that we are able to respond at short notice to specific customer requirements. We will benefit from this later in the year.

We also successfully started the production of solar cells in the larger 156 x 156 mm format on a mono- and multicrystalline basis.

Despite the conversion activities, we were able to maintain the production of solar cells at a high level in the first quarter 2005 and produced 2.2 megawatt peak.

The average efficiency rate of solar cells made of multicrystalline silicon was approx. 14.7 percent. Currently, top efficiency rates of up to 16 percent are reached. Monocrystalline solar cells reach efficiency rates of up to about 17 percent and thus continue to hold a top position in technology.

The erection of the new production plant, Sunways Production GmbH in Arnstadt / Thuringia, continues as planned. Production will start in the second half of the year. Despite the related budgeted start-up costs, the result of the solar cell division remained at the level of the first quarter 2004.

Technology

The focus of our research and development activities continues to be on the further reduction of the production costs as well as on the continuous increase of the efficiency rates of our solar cells. The co-operations with domestic and international research institutes were successfully continued during the first quarter 2005.

An improvement of the Transparent Sunways Solar Cell was presented in March at the Photovoltaic Symposium in Bad Staffelstein. With this product, we will approach new customer groups in the architectural area. This market is developing independently of government-initiated promotion programs. The product has already gained international recognition.



Investments

Investments in the solar cell division amounted to 8 million Euro in the past quarter and largely related to the erection of the new production plant (Sunways Production GmbH) and the automation of the Constance production unit.

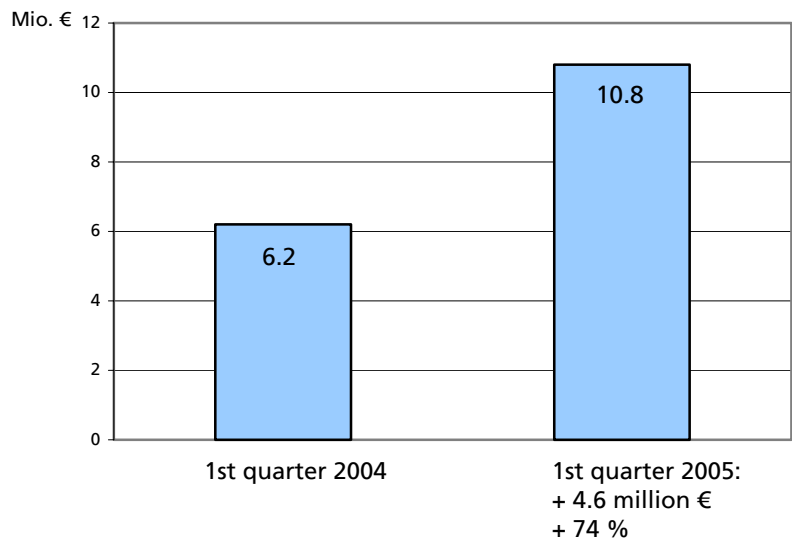
3.2 Solar Systems and Projects

The business division of solar systems and projects was again marked by strong demand in the first quarter.

An even stronger growth was prevented by the long winter as installers postponed parts of their orders. The strong demand is expected to continue in 2005 and will again result in a scarcity of quality modules during the entire year 2005.

Production capacities at our partner's location for the modules distributed under the „MHH“ brand name were expanded as planned.

Sales



In the first three months 2005, sales in this business division rose by 74 percent against the prior year to 10.8 million Euro (prior year: 6.2 million Euro).

In addition to co-operations with other module partners, the sales of our Group's own solar modules offered under the „MHH“ brand name were again successfully increased. The share in modules sold in the first quarter amounted to about 42 percent (prior year: 24 percent).

Strong demand remains undiminished

Quarterly comparison: 74 percent rise in sales

MHHH Solartechnik GmbH continues to be successful



95 percent of sales were generated in Germany (prior year: 99 percent). Shipments abroad were no longer feasible due to the scarcity of modules.

However, international sales in the area of Solar Inverters rose substantially.

Price Development

Due to the strong demand in Germany and increased prices of raw materials, the prices for solar modules increased. The scheduled rise in the trading margin was realized.

There might be a further increase in module prices as a result of rising prices for raw materials in the next few months.

Production of New Inverter Generation

Our production partner for the Sunways Solar Inverters presently conducts two-shift operations. Capacities may be further adjusted at short notice.

Sunways Solar Inverters with a total capacity of 5 megawatt were installed in the first three months. The further development of the Sunways Solar Inverter NT family of devices is progressing as planned. Serial production of a new capacity class will start in May 2005.

Investments

No major investments were effected in the first quarter.

4. Financing

In the first three months, the redemption of bank loans continued as planned. Redemption payments amounted to approx. 0.4 million Euro.

Liquid funds within the Group decreased according to plan. This was due to the fact that own funds are being used for the erection of Sunways Production GmbH.

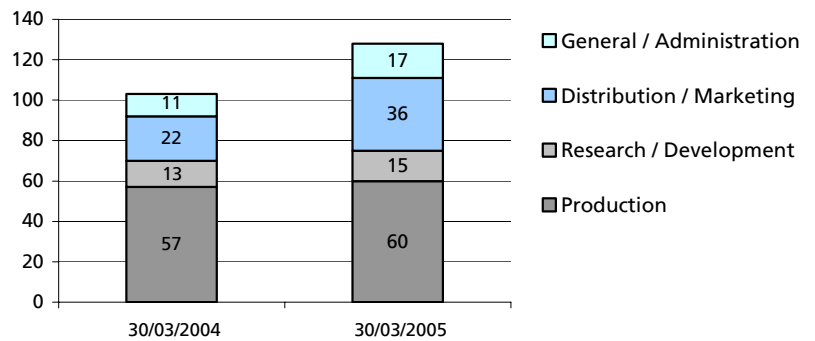
In this context, loan agreements relating to an amount of approx. 15 million Euro were concluded at the beginning of April 2005. Thus the entire funding of the new production site has been ensured.

Solar inverters with a capacity of 5 MW in the first three months 2005



5. Personnel and Social Matters

As of 31 March 2005, the Sunways Group employed a staff of 128 (as of 31 March 2004: 103). The break-down of employees by functions was as follows:



Due to the commissioning of Sunways Production GmbH, there will be another rise in the number of employees in 2005. 60 new jobs will be created in Arnstadt by the end of the year.

Positive business development continues;
first positive EBIT for the first quarter

6. Result

In the first quarter 2005, Sunways generated sales of 15.4 million Euro (prior year: 10.5 million Euro).

Although, according to past experience, the first quarter is the weakest in the solar industry, Sunways for the first time generated positive EBIT in this reporting period. At +0.3 million Euro, this amount exceeds the prior year figure of -0.2 million Euro. EBITDA amounted to +0.7 million Euro (prior year: +0.2 million Euro). This resulted in a breakeven on a consolidated basis (prior year: net loss of -0.2 million Euro).

The reasons for these satisfactory figures were inter alia the sales growth in the system business and the positive development of the inverter business.

Undiluted earnings per share (basic earnings per share according to IAS 33) at the end of the first three months 2005 amounted to 0.0 Euro (prior year: -0.02 Euro). Diluted earnings approximate the undiluted earnings.



7. Segment Reporting

For purposes of the following segment reporting, the Company's operations are divided into two major divisions: solar cells (development, production and distribution of solar cells) and solar systems (development, production and distribution of inverters as well as distribution of and project management for solar systems).

	1st Quarter 2005				1st Quarter 2004		
	Solar cells Millions of €	Solar systems Millions of €	Conso- lidation Millions of €	Total Millions of €	Solar cells Millions of €	Solar systems Millions of €	Total Millions of €
Sales	4.8	10.8	-0.2	15.4	4.3	6.2	10.5
EBITDA	-0.1	+0.8		+0.7	-0.1	+0.3	+0.2
Depreciation / amortization	-0.3	-0.1		-0.4	-0.3	-0.1	-0.4
EBIT	-0.4	+0.8		+0.3	-0.4	+0.2	-0.2

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Balance Sheet as of 31 March 2005

	31/03/2005 Millions of €	31/12/2004 Millions of €
ASSETS		
Current assets		
Liquid funds	1.7	13.1
Marketable securities	1.0	1.1
Trade receivables	5.0	3.6
Inventories	7.9	5.4
Prepayments and accrued income and other current assets	1.9	1.2
Total current assets	17.5	24.5
Tangible fixed assets	18.6	10.7
Intangible assets	1.2	1.2
Financial assets	0.0	0.0
Goodwill	0.2	0.2
Deferred taxes	3.7	3.7
Total assets	41.2	40.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	0.7	0.8
Trade payables	9.0	8.0
Prepayments received	0.0	0.1
Provisions	1.4	1.5
Income tax payable	0.3	0.3
Other current liabilities	0.6	0.5
Total current liabilities	12.1	11.0
Long-term liabilities		
Bonds	9.6	9.6
Long-term loans	3.0	3.3
Deferred taxes	0.6	0.7
Total long-term liabilities	13.2	13.5
Shareholders' equity		
Subscribed capital	9.5	9.5
Capital reserve	14.8	14.7
Accumulated profit / loss	-8.4	-8.3
Total shareholders' equity	15.9	15.9
Total liabilities and shareholders' equity	41.2	40.4

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Income Statement
for the Fiscal Year 2005

	01/01 - 31/03/2005 Millions of €	01/01 - 31/03/2004 Millions of €
Sales	15.4	10.5
Changes in inventories of finished and unfinished goods	0.0	0.2
Gross performance	15.4	10.7
Other operating income	0.0	0.0
Cost of materials	-12.1	-8.6
Personnel expenses	-1.4	-1.1
Depreciation and amortization	-0.4	-0.4
Other operating expenses	-1.2	-0.8
Operating result (EBIT)	0.3	-0.2
Interest income/expenses	-0.3	-0.1
Result before taxes	0.0	-0.3
Taxes on income	0.0	0.1
Consolidated net income/loss	0.0	-0.2
Earnings per share (consolidated net income/loss : number of shares; here: diluted = undiluted)	0.00	-0.02
Average number of shares outstanding	9,514,070	9,514,070

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Cash-Flow Statement for the Fiscal Year 2005

Operating activities

Operating result (EBIT)

Adjustments for:

Income tax received / paid (-)

Depreciation and amortization

Operating result before changes in net current assets

Changes in assets and liabilities:

Increase (-) / decrease in receivables and
other current assets, accruals and deferrals

Increase (-) / decrease in inventories

Increase (-) / decrease in trade payables
and other short-term provisions, liabilities

Cash provided by operating activities

Investment activities

Purchase of fixed assets

Cash provided by disposals of fixed assets

Cash used for investment activities

Financing activities

Cash provided by / used for (-) bonds

Cash provided by / used for (-) long-term loans

Cash provided by / used for (-) short-term bank loans

Contributions to subscribed capital and capital reserves

Cash provided by / used for (-) interest

Cash provided by / used used for (-) financing activities

Net increase/decrease of liquid funds

Cash and cash equivalents at the beginning of the reporting period

Cash and cash equivalents at the end of the reporting period

Composition of liquid funds at the end of the reporting period

Marketable securities

+ Cash

	01/01 - 31/03/2005 Millions of €	01/01 - 31/03/2004 Millions of €
Operating result (EBIT)	0.3	-0.2
Adjustments for:		
Income tax received / paid (-)	0.0	0.0
Depreciation and amortization	0.4	0.4
Operating result before changes in net current assets	0.7	0.2
Changes in assets and liabilities:		
Increase (-) / decrease in receivables and other current assets, accruals and deferrals	-2.1	-3.5
Increase (-) / decrease in inventories	-2.5	0.3
Increase (-) / decrease in trade payables and other short-term provisions, liabilities	0.7	3.9
Cash provided by operating activities	-3.1	0.9
Investment activities		
Purchase of fixed assets	-8.0	-0.4
Cash provided by disposals of fixed assets	0.0	0.0
Cash used for investment activities	-8.0	-0.4
Financing activities		
Cash provided by / used for (-) bonds	0.0	0.0
Cash provided by / used for (-) long-term loans	-0.3	-0.2
Cash provided by / used for (-) short-term bank loans	-0.1	-0.5
Contributions to subscribed capital and capital reserves	0.1	0.0
Cash provided by / used for (-) interest	-0.1	-0.1
Cash provided by / used used for (-) financing activities	-0.3	-0.8
Net increase/decrease of liquid funds	-11.5	-0.3
Cash and cash equivalents at the beginning of the reporting period	14.2	2.6
Cash and cash equivalents at the end of the reporting period	2.7	2.3
Composition of liquid funds at the end of the reporting period		
Marketable securities	1.0	0.4
+ Cash	1.7	1.9
	2.7	2.3

(Rounding differences are possible)



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 31/03/2005

	Subscribed capital	Reserves	Profit/loss brought forward	Total
	Millions of €	Millions of €	Millions of €	Millions of €
01 January 2004	9.5	14.3	-9.9	13.9
Net loss			-0,2	-0,2
31 March 2004	9.5	14.3	-10.0	13.8
01 January 2004	9.5	14.3	-9.9	13.9
Equity from convertible bonds		0.2		0.2
Revaluation of marketable securities		0.1		0.1
Net income			1.6	1.6
30 December 2004	9.5	14.7	-8.3	15.9
01 January 2005	9.5	14.7	-8.3	15.9
Equity from convertible bonds		0.0		0.0
Changes resulting from share options		0.1	-0.1	0.0
Net income			0.0	0.0
31 March 2005	9.5	14.8	-8.4	15.9

(Rounding differences are possible)



8. Shareholdings of Members of Executive Bodies

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

	Shares as of 31/03/2005	Options as of 31/03/2005
Management Board		
Roland Burkhardt	1,730,345	40,000
Supervisory Board		
Dr. Roland Bahr, chairman	9,902	
Otto Mayer, deputy chairman	760,000	
Ernst Haug	3,695	
Franz Heim (until 31 January 2005)	937,690	
Heinz W. Bull	0	
Frank Wehking	0	

Franz Heim resigned from the Supervisory Board as of 31 January 2005.

Directors' Dealings

No directors' dealings were reported in the period under review.



Development of the solar industry continues to be positive

9. Outlook for the Entire Fiscal Year 2005

The global development of the solar industry is a positive one. The photovoltaics industry is developing into an important industry segment – in many countries also independently of political trends and promotion programs. The German market will become the largest photovoltaics market worldwide in 2005. We expect a market volume similar to that in 2004 and anticipate a newly installed capacity of approx. 350 megawatt.

Interesting markets for Sunways are also emerging outside Germany. The course for significant market development trends is presently set in Asia. We will, however, also strengthen our presence in Spain where we already achieved a great success in 2004 with the Sunways Solar Inverter.

In the second half of 2005, Sunways Production GmbH will start the production of mono- and multicrystalline solar cells. For 2005 we anticipate an additional production output of 6 megawatt. Full production capacities will be reached in early 2006.

Positive annual result expected for 2006

We expect a two-digit sales growth. The result will be affected by the start-up loss of the new production plant in Arnstadt. Nevertheless, a positive result (EBIT) exceeding the 2004 annual result seems likely.

The Management Board, 19 May 2005

Financial Calendar 2005

19 May 2005	General meeting, Constance
09 August 2005	Financial data 2nd quarter 2005
09 November 2005	Financial data 3rd quarter 2005
09 November 2005	Analysts' conference, Frankfurt am Main

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

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