



Sunways AG, Constance

3rd Quarter Report 2005



Sunways AG, Constance
Notes to the Consolidated Interim Financial Statements (IAS)
as of 30 September 2005

Highlights

1. Major Events of the Third Quarter 2005

- Production capacity at Constance plant fully utilized
- Production starts at Sunways Production GmbH in Arnstadt
- Sales rise by 15 percent against the comparable prior year period due to an increase in productivity while capacities remain almost unchanged
- 28 % rise in sales in the first nine months
- EBIT in the third quarter amount to +0.5 million Euro despite scheduled start-up costs for the construction of the new production site
- Continuously strong demand for photovoltaics products

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 business development is positive: Gross performance in the third quarter 2005 rose from 19.6 million Euro (2004) to 24.6 million Euro.

The photovoltaics industry continues to experience a strong demand. The demand for solar cells and inverters on a national as well as international level exceeds the supply by far. At Sunways AG as well this development results in incoming orders that significantly exceed our current capacities. However, the effective market growth is restricted by the shortage of material, in particular solar modules.

Demand for photovoltaics products continues to be strong



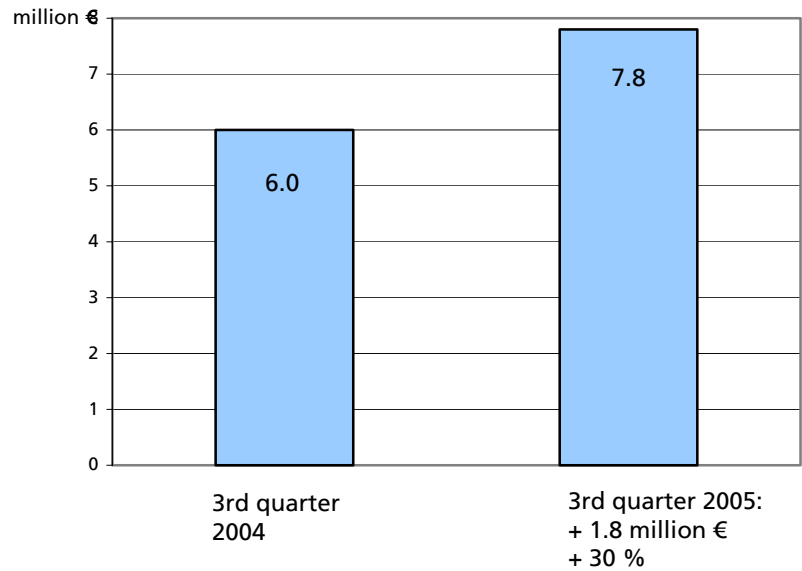
2005 production sold out

3.1 Solar Cells

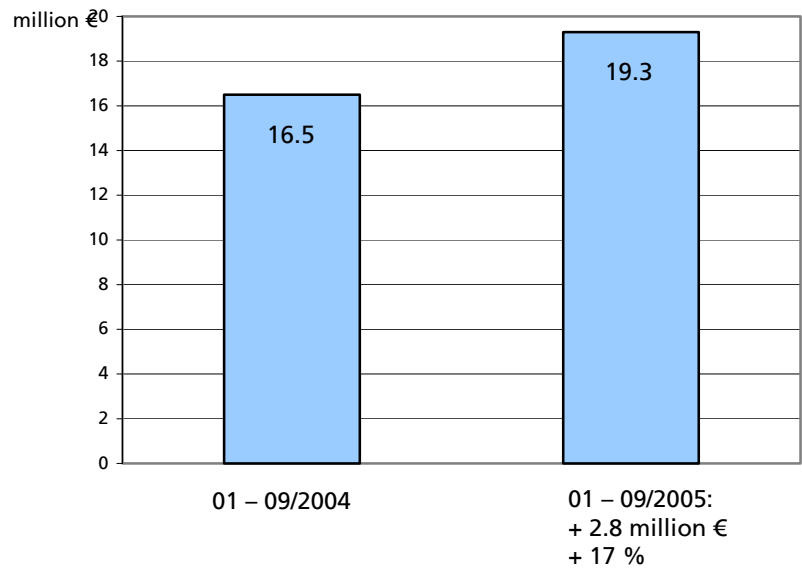
In the third quarter, we again recorded a rise in the demand for our solar cells that exceeded our production capacities by far. Our total 2005 production has been sold off for some time. Due to the strong demand, we already record an order backlog beyond mid-2006. Thanks to the good market situation, long-term sales of our products are also ensured beyond that date.

Sales

Quarterly comparison:
30 percent rise in sales



Nine-month comparison:
17 percent rise in sales





From January to September 2005, sales increased by approx. 17 percent to 19.3 million Euro against the comparable prior year period (prior year: 16.5 million Euro).

In early September, the solar cell production at our plant Sunways Production GmbH started as planned and will be in the start-up phase until the end of 2005. Until its full production capacity has been reached, we will steadily work at the capacity limit of our Constance plant. With the additional production capacities at the new Arnstadt plant we will be able to generate markedly higher growth rates in this segment from 2006 onwards.

Approximately four percent of solar cell sales in the third quarter 2005 were generated abroad (prior year: approx. 15 percent). The international demand was again so strong that our capacities were not sufficient to further increase the international percentage.

Price Development

Due to the strong demand, we were able to establish higher prices in the market, enabling us to pass on to some extent the increased cost of raw materials to our customers.

Production

We were again able to increase our solar cell production output. In the first nine months of the current year, we produced 8.6 megawatt (prior year: 8.0 MW). The production output in the third quarter 2005 amounted to 3.0 megawatt. As expected, the start-up costs of the new production site in Arnstadt affected the results of the solar cell segment in the past quarter.

The steps taken at the Constance production site to increase flexibility are now having a positive effect: We are able to respond to special customer demands at short notice and to produce various solar cell formats. Since mid-year we have been preparing our future product strategy: Upon completion of the start-up phase of our Arnstadt plant, we will position ourselves in Constance as a provider of special solar cells. This will promote long-term customer loyalty and enable us to approach target groups irrespective of the subsidy situation.

The average efficiency rate of solar cells from multi-crystalline silicon was approx. 14.7 percent. At present, top efficiency rates of up to 16 percent are achieved. The monocrystalline solar cells have efficiency rates of up to approx. 17 percent and thus continue to hold a leading position in technology.



Technology

In view of the scarcity of silicon, the focus of our research and development department is on two cost-related aspects: minimizing the consumption of raw material by using the thinnest possible wafers and increasing the efficiency rate.

Going into the thin-film technology business

In May 2005, we entered into a cooperation agreement with Unaxis AG, Liechtenstein. The goal is to jointly develop a production plant for the manufacture of solar cells based on the thin-film technology within a period of two years. By going into the thin-film technology business, Sunways AG will be expanding its product range. Also significantly less silicon and a smaller number of process steps are required for the production of thin-film solar cells than for the manufacture of mono- and multicrystalline solar cells so that the production costs may be reduced substantially. First results of the project confirmed the feasibility of the time scheduled established by us.

Supply of raw material

In order to secure the supply of the raw material silicon and to markedly expand the processing capacities of the wafer manufacturer Swiss Wafers AG, Weinfelden / Switzerland, we entered into a cooperation agreement with this enterprise in June 2005. The five-year agreement covers the supply and purchase of an amount of wafers that corresponds to a capacity of at least 7.5 megawatt per year in terms of solar cells. This cooperation will also enable us to have high purity silicon or ingots processed to wafers by our partner. This will significantly improve our position in the difficult silicon procurement market, as we will be able to approach a larger number of suppliers to cover our raw material requirements and thus secure the supply of raw material for the solar cell production in the long term.

Investments

Investments in the solar cell division in the past quarter amounted to 5.3 million Euro and mainly related to the erection of the new production plant (Sunways Production GmbH).

3.2 Solar Systems and Projects

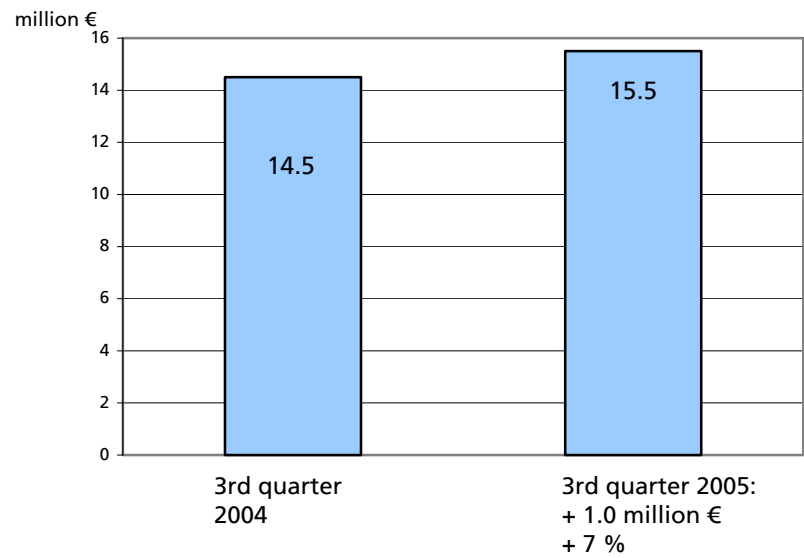
Continuously rising demand

As expected, the solar systems and projects division again experienced a strong demand in the third quarter which further intensified the shortage of quality modules.

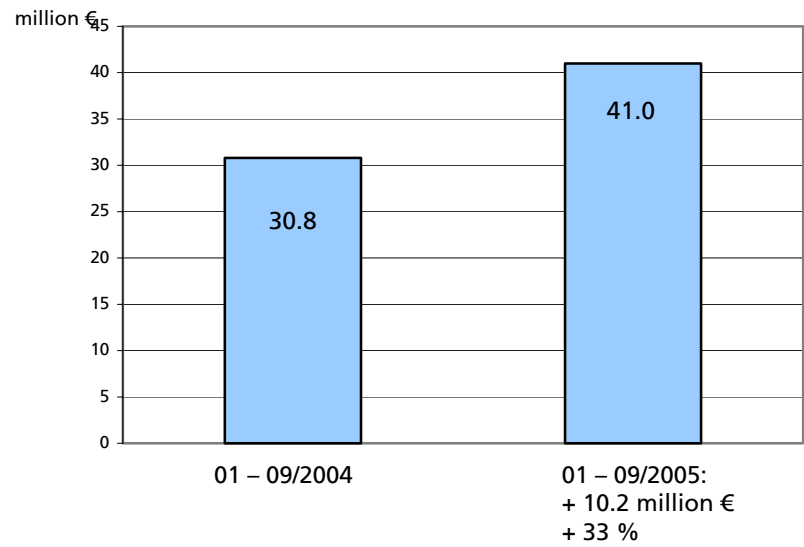


Quarterly comparison:
7 percent rise in sales

Sales



Nine-month comparison:
33 percent rise in sales





Very good order position
at MHH Solartechnik GmbH

Thanks to our long-standing business relations and supplier contacts, we were able to further expand our systems business. Sales in this division rose by 33 percent against the prior year to 41.0 million Euro in the first nine months 2005 (prior year: 30.8 million Euro).

The sales volumes of all types of modules distributed by MHH continued to grow. Due to our still limited production capacities, we again specifically concentrated on supplying our long-standing domestic partners in the third quarter 2005 and thus generated 97 percent (prior year: 98 percent) of our sales in Germany.

Our decision to open a distribution office in Barcelona proved right: In the Solar Inverter area, international sales in Spain were expanded and will reach a market share of approximately 11 percent in 2005. This is an excellent starting position for further market development.

Price Development

Due to the strong demand in Germany and higher prices of raw materials, the prices of solar modules rose again in the reporting period. This development will decline in the future.

Production of new generation of inverters

The new device of our NT Solar Inverter family, which has been available since the second quarter 2005, now covers a voltage range from 350 to 850 volt and thus ideally adapts to the electric properties of the solar cells in the 156 x 156 mm format that are increasingly found in the market and also produced by Sunways AG. Thus the number of possible variations with respect to circuits of photovoltaic modules increased as well.

The Sunways Communicator has been available since July 2005. With this device, all key data of photovoltaic systems may be controlled by any computer with internet access. It meets with great interest from our customers to supplement new and existing systems.

The product range was expanded in mid-October to include the Sunways Solar Inverter NT 10000. The device may be used for photovoltaic systems with 10 kilowatt and more and constitutes the answer to the issue of the increasing size of photovoltaic systems as well as customers' wishes for more efficiency and easy handling of large inverters.

Excellent market acceptance
of product improvements
and additions



"sunways on tour 2005/2006"
promotes sales of Sunways Solar Inverters

Since September 2005, we have also continued our campaign for traders of Sunways Solar Inverters - "sunways on tour 2005/2006". In addition to supporting traders in the distribution of inverters, this sales promotion measure is focused on expert argumentation for solar energy. Sunways AG is heading this initiative within the framework of a nationwide trade campaign. As partners in the campaign, traders will benefit from current sales promotion measures, receive regular information on Sunways products and be in a position to actively design their sales activities with the aid of various means of communication.

Investments

There were no major investments in the third quarter 2005.

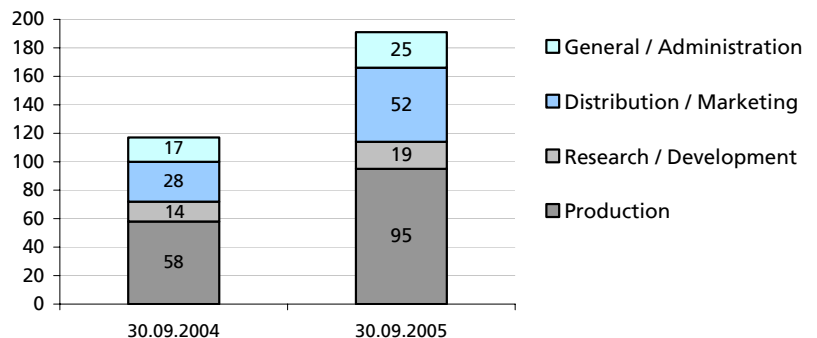
4. Financing

In the third quarter, the redemption of bank loans continued as planned. Redemption payments amounted to approx. 0.3 million Euro. The preliminary financing of silicon was partly funded by drawings on an overdraft facility.

Loan agreements relating to a total amount of approx. 15 million Euro were entered into in early April 2005 to finance Sunways Production GmbH. An amount of 12.9 million Euro was disbursed under these agreements by 30 September 2005.

5. Personnel and Social Matters

As of 30 September 2005, the Sunways Group employed a staff of 191 (as of 30 September 2004: 117). The increase in the number of employees resulted from the establishment of Sunways Production GmbH and the expansion of our distribution activities during the year, inter alia by developing our distribution office in Barcelona. The break-down of employees by functions was as follows:



In the fourth quarter 2005, the number of staff will rise again due to the introduction of a fourth shift at Sunways Production GmbH.



6. Sales and Earnings

In the first nine months 2005, sales of 60.1 million Euro were generated, a 28 percent rise against the prior year figure (2004: 47 million Euro). 23.3 million Euro (prior year: 20.2 million Euro) of this total amount related to the third quarter.

Positive EBIT of +1.1 million Euro (prior year: +2.6 million Euro) were generated in the third quarter. EBITDA amounted to +2.5 million Euro (prior year: +3.8 million Euro) which resulted in a breakeven on a consolidated basis (prior year: net income of +1.4 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) at the end of the first nine months were 0.00 Euro (prior year: 0.15 Euro). Diluted earnings corresponded to undiluted earnings.

With respect to these figures, it has to be taken into account that the result was affected by the investment expenditure and start-up costs for our new Arnstadt production plant.

The major aspect of an investment in a photovoltaic system is the system's expected profitability. Therefore, increased prices of raw materials in the solar cell and module segment could not be passed on to end customers in full, as these latter do not tolerate price increases to an unlimited extent. Thus margins were slightly below those of the prior quarter.



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).

	3rd quarter 2005				3rd quarter 2004			
	Solar cells Millions of €	Solar systems Millions of €	Consol. Millions of €	Total Millions of €	Solar cells Millions of €	Solar systems Millions of €	Consol. Millions of €	Total Millions of €
Sales	7.8	15.5	0.0	23.3	6.0	14.5	-0.3	20.2
EBITDA	-0.4	+1.4		+1.0	+0.2	+1.7		+1.9
Deprec./amortization	-0.4	-0.1		-0.5	-0.3	0.0		-0.3
EBIT	-0.8	+1.3		+0.5	-0.1	+1.7		+1.6

	01 – 09/2005				01 – 09/2004			
	Solar cells Millions of €	Solar systems Millions of €	Consol. Millions of €	Total Millions of €	Solar cells Millions of €	Solar systems Millions of €	Consol. Millions of €	Total Millions of €
Sales	19.3	41.0	-0.2	60.1	16.5	30.8	-0.3	47.0
EBITDA	-0.7	+3.2		+2.5	+0.8	+3.0		+3.8
Deprec./amortization	-1.2	-0.2		-1.4	-1.0	-0.2		-1.2
EBIT	-1.9	+3.0		+1.1	-0.2	+2.8		+2.6

(Rounding differences are possible)



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

	01/07 - 30/09/2005	01/07 - 30/09/2004	01/01 - 30/09/2005	01/01 - 30/09/2004
	Millions of €	Millions of €	Millions of €	Millions of €
Sales	23.3	20.2	60.1	47.0
Changes in inventories of finished and unfinished goods	1.3	-0.6	1.4	-1.6
Gross performance	24.6	19.6	61.5	45.4
Other operating income	0.0	0.1	0.1	0.1
Cost of materials	-19.9	-14.9	-49.3	-34.9
Personnel expenses	-1.9	-1.4	-5.2	-3.7
Depreciation and amortization	-0.5	-0.4	-1.4	-1.3
Other operating expenses	-1.9	-1.4	-4.7	-3.0
Operating result (EBIT)	0.5	1.6	1.1	2.6
Interest income/expenses	-0.4	-0.1	-0.9	-0.2
Result before taxes	0.1	1.5	0.2	2.4
Taxes on income	0.0	-0.6	-0.1	-0.9
Consolidated net income / loss	0.0	0.8	0.0	1.4
Earnings per share (consolidated net income/loss : number of shares; here: diluted = undiluted)	0.00	0.08	0.00	0.15
Average number of shares outstanding (diluted = undiluted)	9.680.091	9.514.070	9.588.619	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

Book gains (-)/-losses from disposal of fixed assets

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 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 - 30/09/2005 Millions of €	01/01 - 30/09/2004 Millions of €
Operating result (EBIT)	+1.1	+2.6
Adjustments for:		
Income tax received/paid (-)	-0.1	0.0
Depreciation and amortization	1.4	1.3
Book gains (-)/-losses from disposal of fixed assets	0.0	0.0
Operating result before changes in net current assets	2.4	3.9
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-1.0	-4.1
Increase (-)/decrease in inventories	-5.1	0.0
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	1.1	4.3
Cash provided by operating activities	-2.6	4.1
Investment activities		
Purchase of fixed assets	-21.6	-1.1
Cash used for investment activities	-21.4	-1.1
Financing activities		
Cash provided by/used for (-) bonds	0.1	0.0
Cash provided by/used for (-) long-term loans	11.8	-0.9
Cash provided by/used for (-) short-term bank loans	0.4	-0.2
Contributions to subscribed capital and capital reserves	0.6	0.1
Cash provided by/used for (-) interest	-0.2	-0.2
Cash provided by/used used for (-)financing activities	12.7	-1.2
Net increase/decrease of liquid funds	-11.5	1.8
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	4.3
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.5	1.1
+ Cash	2.2	3.3
	2.7	4.4

(Rounding differences are possible)



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 30/09/2005

	Subscribed capital Millions of €	Reserves Millions of €	Profit/ loss brought forward Millions of €	Total Millions of €
01 January 2004	9.5	14.3	-9.9	13.9
Revaluation of marketable securities		0.1		0.1
Net income			1.4	1.4
30 September 2004	9.5	14.4	-8.4	15.5
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
31 December 2004	9.5	14.7	-8.3	15.9
31 December 2004 / 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	0.4	-0.1	0.4
Net income			0.0	0.0
30 September 2005	9.6	15.1	-8.4	16.4

(Rounding differences are possible)



9. 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 30 September 2005.

	Shares as of 30/09/2005	Options as of 30/09/2005
Management Board		
Roland Burkhardt	1,740,345	30,000
Supervisory Board		
Dr. Roland R. Bahr, chairman	9,902	
Otto Mayer, deputy chairman	760,000	
Ernst Haug	3,695	
Heinz W. Bull	0	
Frank Wehking	0	
Thomas Nordmann	0	

Currently, 9,680,091 Sunways shares are outstanding.

Directors' Dealings

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



Photovoltaics industry continues to grow

10. Outlook for the Entire Fiscal Year 2005

The positive development of the solar industry is continuing on a domestic and international level. Demand continues to be many times larger than supply.

In Germany, we do not expect the new Federal Government to modify the Renewable Energies Act (Erneuerbare Energien Gesetz) to the disadvantage of photovoltaics. The federations of enterprises of the solar industry believe photovoltaics to be firmly rooted across all political parties. In addition, promising promotion programs for photovoltaics are being developed in other countries, in some cases pursuant to the German model. This tendency clearly shows that renewable energies and, in particular, photovoltaics are becoming increasingly more important.

Spanish distribution office prepares the further internationalization of Sunways AG

Our new distribution office in Barcelona / Spain started its operations on 1 August. The Spanish market has a large potential: The market volume for the year 2005 is estimated at approx. 30 Megawatt and expected to reach 10 times this volume, i.e. 300 megawatt, by 2008. In the wake of this development, Spain may soon replace the US market as the number three worldwide. We would like to participate in this development and are already making extensive preparations for our presence: we are intensifying the contacts with our Spanish customers and additionally developing other markets in Southern Europe.

Sunways Production GmbH expands capacities and has an impact on results

We will complete the establishment of our production plant Sunways Production GmbH at the end of 2005. From January 2006, its entire production capacity of 30 megawatt will be available to us for the manufacture of high-quality mono- and multicrystalline solar cells in large numbers.

Repositioning from 2006 onwards

At the same time, we will position our Constance production plant as a provider of colored and transparent special solar cells. All administrative costs as well as research and development expenses will then be distributed over a much higher production output. Thus we will generate sustainable positive results in the solar cell segment.

Photovoltaics market dominated by a shortage of raw material

Currently, the procurement of wafers constitutes a bottleneck in the photovoltaics market. In our opinion, additional raw material capacities will not be available before 2007, at the earliest, and silicon capacities for the photovoltaic market are not expected to double before 2008.



We have ensured the procurement of this raw material for the 2005 production and beyond. Due to our good contacts in the wafer procurement market, we are confident that we will be able to fully cover the 2006 requirements and will have entered into the corresponding agreements by the end of this year. Prices are negotiated on a step-by-step basis. Despite the difficult situation on the procurement market, we consistently ensure that offers are reasonable and that the material offered is of good quality.

Positive annual result expected for 2005

We still expect to generate a two-digit sales growth for the entire fiscal year 2005. We are striving for a markedly better result in the fourth quarter 2005 than in the third quarter and expect to generate clearly positive EBIT in an amount that will partially be affected by the level of purchase prices in the wafer market.

The Management Board, 09 November 2005

Financial calendar 2006

18 May 2006

Annual general meeting, Constance

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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