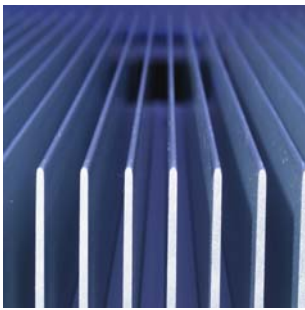


Sunways AG, Constance

1st Quarter Report 2004



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

Highlights

1. Major Events of the First Quarter 2004

- Sales doubled against the comparable prior year period
- Positive EBITDA
- Best first quarter since the Company's inception
- First quarter marked by strong market development

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 2003.

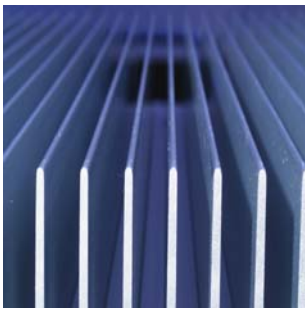
3. Business Operations

The Photovoltaics Interim Law (Erneuerbare Energien Gesetz, EEG), adopted on 19 December 2003, came into force on 1 January 2004. First orders were placed already in the second half of January. Investments postponed in the second half-year 2003 have now been initiated. The photovoltaics market experienced a significant recovery. Demand again increased strongly in March 2004.

EEG amendment promotes propensity to invest

The propensity to invest of private users of solar energy developed most positively. The procedure was significantly simplified as promotion funds are no longer applied for with Kreditanstalt für Wiederaufbau (KfW) under the 100,000 Roofs Programme. Credit institutions are now much more open-minded about the EEG since they are in a position to extend loans at market terms. Thus the growth anticipated by the industry occurred at the beginning of the year.

This year, the global photovoltaics market experiences an unusual development. So far, the markets in the USA, Germany and Japan only rarely recorded a strong simultaneous growth. This results in a shortage of production capacities.



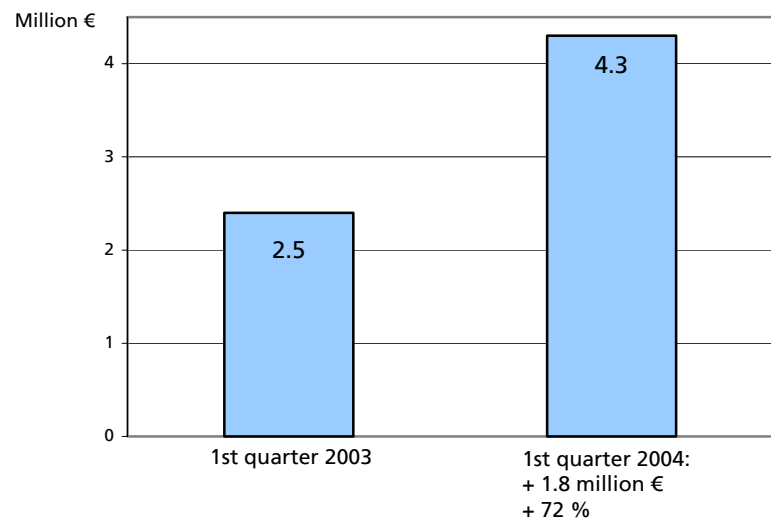
Incoming orders
promote confidence

72 percent rise in sales

3.1 Solar Cells

The solar cell business division experienced a strong development in the first quarter as the backlog of investment projects from 2003 was reduced. This is quite a contrast to the normally rather hesitant customer demand of the season. At the end of March 2004, our customer quotas were fully booked for the entire year.

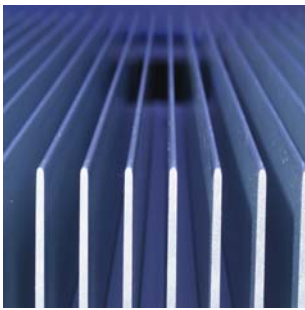
Sales



Sales rose by approx. 72 percent to 4.3 million Euro against the comparable prior year period.

In the first quarter, Sunways generated approx. one percent of its sales abroad (Europe: Spain, Italy; prior year: 10 percent).

As planned, sales in the area of solar cells largely accounted for standard solar cells. The demand for Monocrystalline Sunways Solar Cells recorded a satisfactory development in the first quarter. Due to the high customer demand, we produced about 250 KWP of this cell type already in the first quarter. With the Monocrystalline Solar Cell we achieve efficiency rates of up to approx. 17 percent.



Price Development

Prices in the solar cell market remained stable in the first quarter 2004. In view of the market situation, prices are not expected to decline. However, a price increase is not anticipated either, as mainly suppliers from Taiwan and China still have solar cell capacities.

Production

In the past quarter, the production output was markedly above the level of the comparable prior year period. In the first quarter, we adjusted the capacity utilization to the strong market demand instead of reducing production as originally planned.

The average efficiency rate of solar cells made of multicrystalline silicon amounted to approx. 14.7 percent and was thus 1.3 percentage points higher than in the prior year. Currently, we achieve top efficiency rates of up to 16 percent.

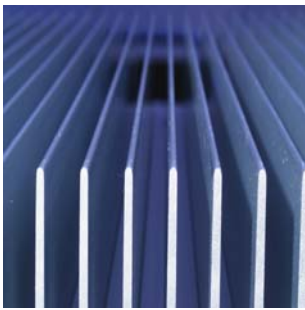
Technology

In addition to the large research projects undertaken in cooperation with national and international research institutes (cost-efficient wafer material, back-contact solar cell), the focus of research and development activities continues to be on the further reduction of the production costs of the Transparent Sunways Solar Cell as well as the continuous increase of efficiency rates of this type of solar cell and of the Multicrystalline Solar Cells.

Substantial efforts were made to enable the manufacture of Monocrystalline Solar Cells on our existing production line. The fast and successful results also prove our experience of using production technologies. We already produced 100,000 Monocrystalline Solar Cells in the first quarter 2004.

Investments

In the past quarter, investments in the area of solar cells amounted to 0.2 million Euro. They mainly related to the decrease in the consumption of chemicals and capitalized development costs.



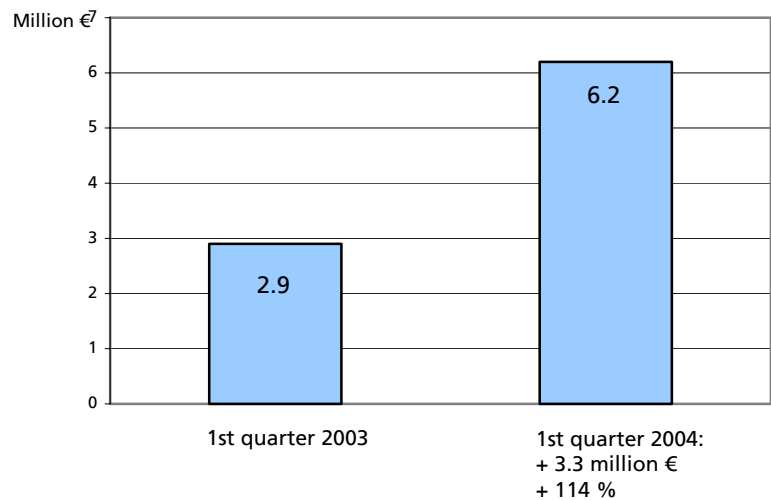
Expansion of successful distribution partnership

3.2 Solar Systems and Projects

The business division solar systems and projects started the new fiscal year with a marked growth against the comparable prior year period. Based on the orders received, a positive market development is anticipated for the months to come.

An extensive distribution partnership is in place between Solarcomplex GmbH in Singen / Hohentwiel and Sunways AG. In its initiative relating to the installation of photovoltaic systems of two megawatt in 2004, Solarcomplex will exclusively use Sunways components (MHH modules with Sunways Solar Cells, Sunways Solar Inverters). So far the orders arising from this partnership amount to approx. three million Euro.

Sales

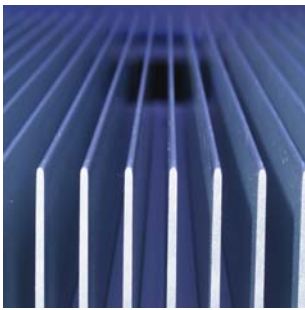


Constant sales growth of the Group's own MHH modules

Sales growth in the first quarter was 114 percent.

The Group's own solar modules offered under the „MHH“ brand name were successfully sold. The share in modules sold in the first quarter was approx. 24 percent (prior year: 25 percent). We expect the sales contribution in this area to increase during the course of the year.

99 percent of sales were generated in Germany (prior year: 82 percent). Foreign sales accounted for markets within the EU and Switzerland.



Production of Sunways
Solar Inverters expanded

Price Development

Due to the strong demand in Germany, the prices for solar systems stabilized significantly. We do not expect any change for the next months.

Production of New Inverter Generation

Due to the strong demand for our inverters, we make preparations for a second production shift. Presently, the procurement of electronic components for the production of Solar Inverters is still difficult. The Company does not expect this bottleneck situation to be resolved before June. The planned production figures are already exceeded by far so that the Company's positive development will not be jeopardized.

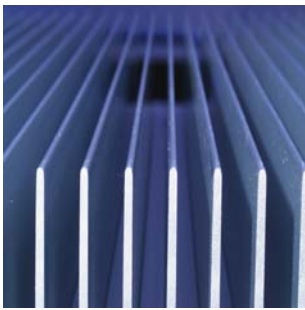
Production capacities for the modules sold under the „MHH“ brand name will be increased significantly in 2004.

Investments

Investments in fixed assets amounted to € 0.2 million and mainly related to capitalized development costs as well as investments in office and plant equipment and EDP software.

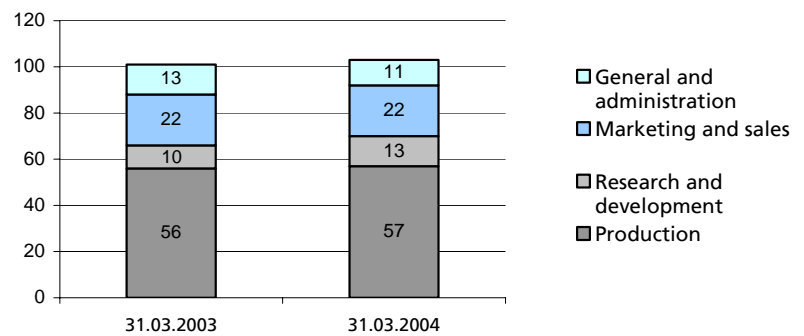
4. Financing

Redemption payments on the bank loans raised for production development continued as planned in 2004. They amounted to 0.3 million Euro in the first quarter.



5. Personnel and Social Matters

As of 31 March 2004, the Sunways Group employed a staff of 103 (as of 31 March 2003: 101). The break-down of employees by functions was as follows:



First positive EBITDA –
result exceeds expectations

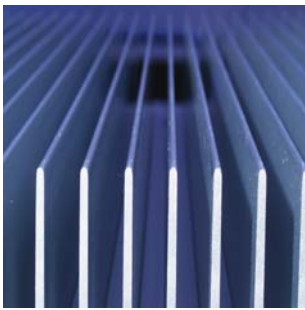
6. Result

Positive EBITDA were generated in the first quarter 2004. At +0.2 million Euro, this figure markedly exceeded our expectations (prior year: -0.8 million Euro).

EBIT in the first quarter amounted to -0.2 million Euro (prior year: -1.2 million Euro).

The consolidated net loss amounted to -0.2 million Euro (prior year: -0.8 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) in the first quarter amounted to -0.02 Euro (prior year: -0.09 Euro).



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 2004			1st quarter 2003		
	Solar		Total	Solar		Total
	Solar cells	systems		Solar cells	systems	
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	4.3	6.2	10.5	2.5	2.9	5.4
EBITDA	-0.1	+0.3	+0.2	-0.5	-0.3	-0.8
Depreciation / amortization	-0.3	-0.1	-0.4	-0.3	-0.1	-0.4
EBIT	-0.4	+0.2	-0.2	-0.8	-0.4	-1.2

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Balance Sheet
as of 31 March 2004

	31/03/2004	31/12/2003
	Millions of €	Millions of €
ASSETS		
Current assets		
Liquid funds	1.9	2.2
Marketable securities	0.4	0.4
Trade receivables	5.4	1.9
Inventories	6.1	6.4
Prepayments and accrued income and other current assets	0.8	0.7
Total current assets	14.6	11.6
Tangible fixed assets	6.1	6.1
Intangible assets	1.6	1.7
Financial assets	0.0	0.0
Goodwill	0.3	0.3
Deferred taxes	4.7	4.6
Total assets	27.3	24.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	0.7	1.2
Trade payables	7.1	2.9
Provisions	0.8	1.0
Income tax payable	0.0	0.1
Other current liabilities	0.6	0.6
Total current liabilities	9.2	5.8
Long-term loans	3.8	4.0
Deferred taxes	0.5	0.5
Shareholders' equity		
Subscribed capital	9.5	9.5
Capital reserve	14.3	14.3
Accumulated profit/loss	-10.0	-9.8
Total shareholders' equity	13.8	14.0
Total liabilities and shareholders' equity	27.3	24.3

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Income Statement
for the Fiscal Year 2004

	01/01 - 31/03/2004 Millions of €	01/01 - 31/03/2003 Millions of €
Sales	10.5	5.4
Changes in inventories of finished and unfinished goods	<u>0.2</u>	<u>-0.7</u>
Gross performance	<u>10.7</u>	<u>4.7</u>
Other operating income	0.0	0.1
Cost of materials	-8.6	-4.0
Personnel expenses	-1.1	-1.0
Depreciation and amortization	-0.4	-0.3
Other operating expenses	<u>-0.8</u>	<u>-0.7</u>
Operating result (EBIT)	<u>-0.2</u>	<u>-1.2</u>
Interest income/expenses	<u>-0.1</u>	<u>-0.1</u>
Result before taxes and minority interests	<u>-0.3</u>	<u>-1.3</u>
Taxes on income	<u>0.1</u>	<u>0.5</u>
Consolidated net income/loss	<u><u>-0.2</u></u>	<u><u>-0.8</u></u>
Earnings per share	-0.02	-0.08
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 2004

	01/01 - 31/03/2004 Millions of €	01/01 - 31/03/2003 Millions of €
Operating activities		
Result before taxes and minority interests	-0.3	-1.3
Adjustments for:		
Depreciation and amortization	0.4	0.3
Operating result before changes in net current assets	<u>0.1</u>	<u>-1.0</u>
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals and deferred tax assets	-3.5	-1.0
Increase (-)/decrease in inventories	0.3	-1.6
Increase (-)/decrease in trade payables and other short-term provisions, liabilities and deferred tax liabilities	3.9	1.2
Cash provided by operating activities	<u>0.8</u>	<u>-2.4</u>
Investment activities		
Purchase of fixed assets	-0.4	-0.4
Cash used for investment activities	<u>-0.4</u>	<u>-0.4</u>
Financing activities		
Cash provided by/used for (-) long-term loans	-0.2	-0.3
Cash provided by/used for (-) short-term bank loans	-0.5	-0.1
Contributions to subscribed capital and capital reserves	0.0	-0.1
Cash provided by/used used for (-) financing activities	<u>-0.7</u>	<u>-0.5</u>
Net increase/decrease of liquid funds	<u>-0.3</u>	<u>-3.2</u>
Cash and cash equivalents at the beginning of the reporting period	<u>2.6</u>	<u>4.1</u>
Cash and cash equivalents at the end of the reporting period	<u>2.3</u>	<u>0.8</u>
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.4	0.5
+ Cash	<u>1.9</u>	<u>0.3</u>
	<u>2.3</u>	<u>0.8</u>

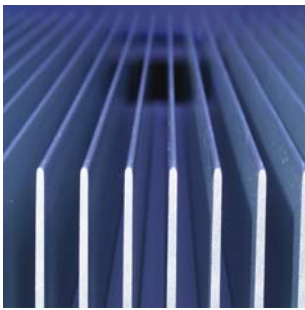
(Rounding differences are possible)



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 31/03/2004

	Subscribed capital	Reserves	Profit/loss brought forward	Total
	Millions of €	Millions of €	Millions of €	Millions of €
01 January 2003	9.5	14.1	-8.2	15.4
Capital increase against contribution in kind		0.2		0.2
Revaluation of marketable securities		-0.1		-0.1
Net loss			-1.6	-1.6
31 December 2003	<u>9.5</u>	<u>14.3</u>	<u>-9.8</u>	<u>14.0</u>
01 January 2003	9.5	14.1	-8.2	15.4
Revaluation of marketable securities		0.0		0.0
Net loss			-0.8	-0.8
31 March 2003	<u>9.5</u>	<u>14.1</u>	<u>-9.0</u>	<u>14.6</u>
01 January 2004	9.5	14.3	-9.8	14.0
Revaluation of marketable securities		0.0		0.0
Net loss			-0.2	-0.2
31 March 2004	<u>9.5</u>	<u>14.3</u>	<u>-10.0</u>	<u>13.8</u>

(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 2004.

	Shares as of 31/03/2004	Options as of 31/03/2004
Management Board		
Roland Burkhardt	1,880,345	10,000
Supervisory Board		
Dr. Roland Bahr, chairman	9,902	
Otto Mayer, deputy chairman	759,836	
Ernst Haug	3,695	
Franz Heim	1,740,403	
Heinz W. Bull	0	
Manfred Schulz	0	

During the reporting period, Supervisory Board member Franz Heim, through sales of shares, serviced bank loans previously raised in connection with capital increases of Sunways AG (Directors' Dealings).

9. Outlook for the Total Fiscal Year 2004

Due to the strong market development in the first quarter, a shortage of solar cells and solar modules is now anticipated primarily in the German photovoltaics market. Sales in the first quarter significantly exceeded our expectations. Thus we are optimistic that we will be in a position to generate the two-digit sales growth envisaged for the entire year.

At present, the photovoltaic market in Germany seems to continue its very strong development. As this also applies to the markets in Japan and the USA, a stable market price may be anticipated.

In view of this positive development, the positive result still targeted for 2004 will be attainable. Currently, a reversal of the positive market development due to political influences is not anticipated.

The Management Board, May 2004

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Positive result for
2004 within range