



Semi-Annual Report

as of 30 June 2001

sunways
P h o t o v o l t a i c s

Sunways AG, Constance
Notes to the Consolidated Interim Financial Statements (IAS)
as of 30 June 2001

A. Major Events of the 2nd Quarter 2001

- Increase of gross performance in the first half year 2001 to € 8.6 million
- Successful start-up of the three-shift operation in May 2001
- Successful product change in the area of standard solar cells causes a marked increase in efficiency

B. Accounting Principles

This semi-annual report was prepared in accordance with the International Accounting Standards (IAS). The reporting and valuation principles applied were same as those for the consolidated financial statements for the financial year ended 31 December 2000.

In the preparation of these interim financial statements the Company has for the first time taken into account the standards of the German Stock Exchange (Deutsche Börse) for the Preparation of Structured Quarterly Reports of 16 July 2001. These standards will only be binding with respect to reporting from the third quarter of the current year. Sunways appreciates these measures to improve the quality and transparency of the reports. As in the past, the Company has also taken into account IAS 34 in the preparation of the interim financial statements.

C. Business Operations

1. Sales and Gross Performance

Sales and gross performance in the second quarter 2001 rose significantly over the first quarter. Sales amounted to € 4.8 million (1st quarter: € 1.8 million). There was also a marked increase in gross performance (€ 6.2 million in the second quarter 2001 after € 2.4 in the first quarter 2001).

In the first half year 2001, sales amounted to € 6.6 million (prior year: € 1.2 million) and gross performance to € 8.6 million (prior year: € 1.5 million). The increase in gross performance was approx. 514%. If the subsidiary MHH Solartechnik GmbH, Tübingen, acquired in October 2000 were included in the corresponding comparative figures, growth would amount to approx. 240%.

2nd Quarter 2001

| | 2nd Quarter 2001 | | | 2nd Quarter 2000 | | |
|------------------------|------------------|---------------|-------|------------------|---------------|-------|
| | Solar cells | Solar systems | Total | Solar cells | Solar systems | Total |
| Sales | 0.6 | 4.2 | 4.8 | 0.0 | 1.0 | 1.0 |
| Changes in inventories | 1.4 | 0.0 | 1,4 | 0.2 | 0.0 | 0.2 |
| Gross performance | 2.0 | 4.2 | 6.2 | 0.2 | 1.0 | 1.2 |

1st Half Year 2001

| | 1st Half Year 2001 | | | 1st Half Year 2000 | | |
|------------------------|--------------------|---------------|-------|--------------------|---------------|-------|
| | Solar cells | Solar systems | Total | Solar cells | Solar systems | Total |
| Sales | 1.4 | 5.2 | 6.6 | 0.0 | 1.2 | 1.2 |
| Changes in inventories | 2.0 | 0.0 | 2.0 | 0.2 | 0.0 | 0.2 |
| Gross performance | 3.4 | 5.2 | 8.6 | 0.2 | 1.2 | 1.4 |

Solar Cells

Gross performance in the solar cell division was increased against the first quarter to €2.0 million. Sales in the second quarter amounted to €0.6 million. The substantial changes in inventories were inter alia caused by delivery cycles customary in the industry. In addition, the scheduled change-over in the production of standard solar cells to a new manufacturing process resulted in an increase in inventories of semi-finished goods in production which were again significantly reduced in the wake of the anticipated implementation of expansion investments in the course of the year.

According to plan, the majority of sales in the solar cell division accounted for standard solar cells.

Solar Systems

The development of sales of solar modules and inverters as well as other accessories of solar systems in the second quarter 2001 was better than expected. After sales of €1.0 million in the first quarter, sales in the second quarter rose to €4.2 million. The increase against the 2nd quarter 2000 amounted to 320%. The solar systems division, on the one hand, benefited from the concentration of business activities on the system house subsidiary MHH Solartechnik GmbH, Tübingen. On the other hand, MHH Systemtechnik GmbH, Tübingen, was able, by consistently focusing on the distribution of solar systems to wholesalers of electrical products as well as by completing medium-sized and large photovoltaic projects, in particular for energy providers, to establish itself in successful sales markets.

If the corresponding sales of MHH Solartechnik were included in the comparative prior year figures, the increase over the first half year 2000 in this division would be approx. 108%.

Approx. 15% of total sales in the first half year accounted for international sales almost exclusively generated in Europe (mainly the Netherlands, Switzerland and Austria).

1. Production

The start-up of the three-shift operation in May 2001 was completed according to plan. This change initially involved the anticipated start-up costs but will in the future result in higher income due to the increased production capacity. The expansion of production capacities will also cause a decrease in fixed costs in the future.

In June 2001, the production process for opaque solar cells was successfully replaced with a new type of back coating. This new process will lead to a marked increase of the efficiency of

these solar cells and will in the future also result in higher income. In addition, first cost savings due to the use of lower-priced materials were achieved.

The solar cells produced are mainly of the “opaque” type, i.e. non-transparent.

2. Procurement

In the procurement sector, there were first signs of a stabilization; the supply of the wafer material required in the financial year 2001 has been secured. The wafer suppliers of Sunways will commission additional production capacities in the 3rd quarter. Other wafer manufacturers will also significantly increase their production capacities by year-end. This will further secure the stable supply of the most important raw material for the production of solar cells, in particular from the 3rd quarter.

With respect to the procurement of wafers the company anticipates at least a constant price development as, inter alia due to a marked expansion of production capacities, prices are beginning to stabilize.

3. Investments

In the second quarter the investments in fixed assets amounted to € 1.3 million and related mainly to prepayments for the expansion of the diffusion facility as well as to another screen printer. These expansions will maximize the production capacities of the existing line. Delivery of the equipment is planned at the end of August/early September. Due to the successive establishment of the relevant buffer stock in the production sector, the installation of the new equipment will not lead to any reduction in the scheduled annual production volume.

4. Financing Measures and Projects

The Company's share capital after the public offer amounts to € 9.2 million, divided into 9,200,000 non-par value shares to bearer with an imputed share in the Company's capital of EUR 1 per share.

So far, the major portion of the cash-flow generated in the public offer has been invested in Euro or DM-denominated fixed-interest securities of first-class borrowers.

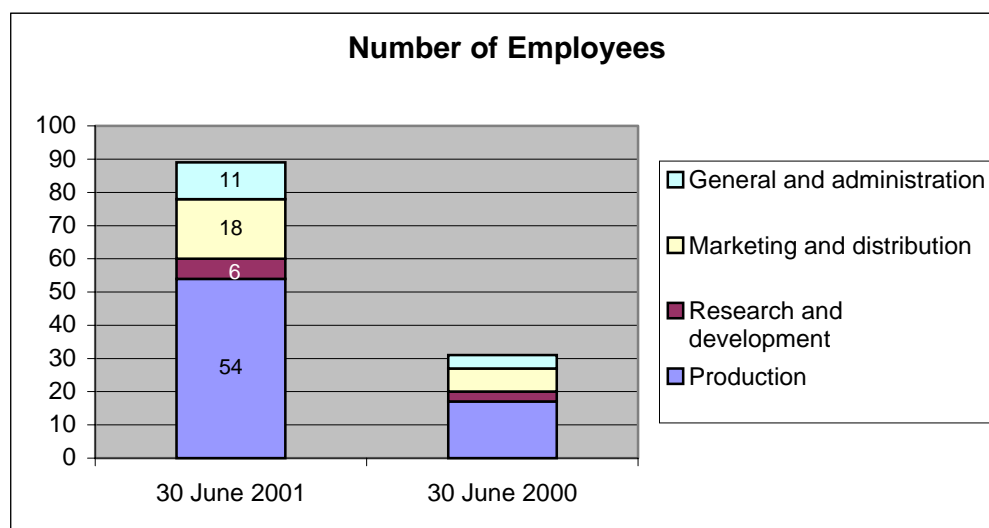
According to plan, the first redemption payments amounting to € 0,1 million were made on the Company's long-term loans during the second quarter 2001.

5. Personnel and Social Matters

In the second quarter, the Company again succeeded in recruiting the employees required to implement its strong growth. On the one hand, the third production shift was largely established without problems. On the other hand, the number of staff in other sectors was also increased significantly. Thus the personnel growth for the current year has been largely completed. The Company's human resources are of major importance to its successful further development. The Company's public offer has also had the anticipated positive effect in this area. The increased recognition of Sunways facilitates the recruitment of qualified personnel.

As of 30 June 2001, the number of Group employees amounted to 89, compared to 31 as of 30 June 2000.

The break-down of employees by functions is as follows:



6. Research and Development

In the second quarter 2001, the Company was able to recruit Dr. Peter Fath, the inventor of the POWER solar cell who had so far acted as advisor to Sunways, as head of the Company's overall development activities. In addition to his activities at Sunways, he will continue his work at the University of Constance.

This was a major progress in the establishment of the research and development department for the solar cell division.

The focus of the research and development activities in the period under review was the further decrease in production costs of POWER solar cells as well as the continuous increase in efficiency of this type of solar cell. In addition, the research and development department was instrumental to the change-over in the production process to the new back coating technique of opaque standard solar cells.

Following the completion of the development activities for the first type of a new generation of inverters, the completion of the other types of the new family of inverters is surging ahead in the inverter development area.

As a rule, research projects are implemented in cooperation with various domestic and foreign research institutes. Individual projects are significantly promoted by public funds.

7. Results

Despite the start-up of the three-shift operation and the change-over to a new back coating process, the consolidated result before taxes (EBT) was improved substantially in the second quarter. The EBT in the second quarter was €-0.4 million after €-0.9 million in the first quarter. This was largely in line with the Company's expectations. The consolidated result after taxes in the second quarter amounted to €-0.5 million after €-0.3 in the first quarter 2001. The increase was exclusively due to the effect of deferred taxes recorded in the first quarter. The accumulated consolidated result for the first half year amounted to €-0.8 million (first half year 2000: €-1.3 million).

D. Shareholdings of Members of the Executive Bodies

The following table sets forth the holdings of Sunways shares and options of members of the Management Board and of the Supervisory Board as of 30 June 2001:

| | Shares held as of 30 June 2001 | Options held as of 30 June 2001 | Lock-up until |
|-----------------------------|-----------------------------------|------------------------------------|-----------------|
| Management Board | | | |
| Franz Heim, CEO | 1,685,654 | 10,000 | 9 February 2003 |
| Roland Burkhardt, CTO | 1,775,655 | 10,000 | 9 February 2003 |
| Bernd Fessler, CFO | 56,000 | 10,000 | 9 February 2003 |
| Supervisory Board | | | |
| Dr. Roland Bahr, Chairman | 9,902 | | |
| Otto Mayer, Deputy Chairman | 655,146 | | 9 February 2002 |
| Ernst Haug | 3,695 | | |

E. Outlook for the Total Financial Year 2001

On the basis of the previous course of operations, the Company strives to reach the expected gross performance for the financial year 2001.

However, a decrease in the demand of major solar cell customers involves the risk that the actual results may be substantially lower than the sales and profit targets in the solar cell division. Currently, the Company is in intense negotiations with customers in order to reach a solution for the present situation. Simultaneously, the distribution efforts are intensified to attract new clients for master agreements. Basically, there is an excess demand in the global market for solar cells. However, a shift to new customers, due to the order cycles and certification processes customary in the industry, requires a certain lead time. On the one hand, module manufacturers typically order their annual solar cell requirements in advance. On the other hand, new customers adapting their module production to the Sunways solar cells have to go through a certification process of several months.

In the system business handled by the subsidiary MHH Solartechnik GmbH, Tübingen, the Company expects a slight improvement against the prognoses. As of 30 June 2001, the sales so far generated in this area, accounting for approx. 50% of consolidated sales for the financial year 2001, were about 10% above the expected sales for the first half year 2001. In the third quarter 2001, this trend has continued so far. However, the positive development at MHH will not make up for the expected decrease in the solar cell division.

In July, the Company initiated a project for the introduction of an integrated EDP system. The system is expected to be operational early next year. Due to this new system, Sunways expects a significant increase in efficiency with respect to its process organization as well as a further improvement of the information flow.

SUNWAYS AG, CONSTANCE
CONSOLIDATED BALANCE SHEET (IAS) AS OF 30 JUNE 2001

| | <u>30.06.01</u> Mio. € | <u>31.12.00</u> Mio. € |
|-------------------------------------------------------------------|---------------------------|---------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | 0,7 | 2,8 |
| Short-term Investments | 12,8 | 0,0 |
| Trade accounts receivable | 1,7 | 1,4 |
| Inventories | 4,6 | 2,6 |
| Prepaid expenses and other current assets | 1,1 | 0,1 |
| | <u>20,9</u> | <u>6,9</u> |
| Total current assets | | |
| Property, plant and equipment | 5,9 | 4,8 |
| Intangible assets | 0,5 | 0,1 |
| Investments | 0,1 | 0,1 |
| Goodwill | 0,1 | 0,1 |
| Deffered tax asset | 1,5 | 0,0 |
| | <u>12,0</u> | <u>12,0</u> |
| Total assets | | |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short term debt and account of long-term debt | 0,7 | 0,7 |
| Trade accounts payable | 3,2 | 2,2 |
| Accrued expenses | 0,4 | 0,4 |
| Income tax payable | 0,1 | 0,0 |
| Other current liabilities | 0,3 | 0,2 |
| | <u>4,7</u> | <u>3,6</u> |
| Total current liabilities | | |
| Long-term debt, less current portion | 6,4 | 6,5 |
| Minority interest | 0,2 | 0,1 |
| Shareholders' equity | | |
| Share Capital | 9,2 | 5,5 |
| Contributions made for the implementation of the capital increase | 0,0 | 1,1 |
| Additional paid-in capital | 14,2 | 0,0 |
| Retained Earnings / Accumulated deficit | -5,6 | -4,8 |
| | <u>17,8</u> | <u>1,8</u> |
| Total Shareholders' equity | | |
| Total Liabilities and Shareholder's equity | | |
| | <u>29,0</u> | <u>12,0</u> |

SUNWAYS AG, CONSTANCE
CONSOLIDATED INCOME STATEMENT (IAS)
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2001

| | Quarterly report II/2001 01.04.01- 30.06.01 Mio. € | Quarterly Report II/2000 01.04.00- 30.06.00 Mio. € | Semi-Annual Report 01.01.2001- 30.06.2001 Mio. € | Semi-Annual Report 01.01.2000- 30.06.2000 Mio. € |
|---------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------|--------------------------------------------------------------|
| Revenues | 4,8 | 1,0 | 6,6 | 1,2 |
| Changes in inventories of finished goods and work in progress | 1,4 | 0,2 | 2,0 | 0,2 |
| Gross performance | 6,2 | 1,2 | 8,6 | 1,4 |
| Other operating income | 0,0 | 0,0 | 0,1 | 0,0 |
| Cost of purchased materials | -5,2 | -1,0 | -7,1 | -1,2 |
| Personnel expenses | -0,7 | -0,3 | -1,3 | -0,6 |
| Depreciation and amortization | -0,1 | -0,2 | -0,3 | -0,3 |
| Other operating expenses | -0,8 | -0,3 | -1,4 | -0,5 |
| Operating Income (EBIT) | -0,6 | -0,6 | -1,5 | -1,2 |
| Interest income and expenditure | 0,2 | 0,0 | 0,2 | -0,1 |
| Result before income taxes and minority interest | -0,4 | -0,7 | -1,3 | -1,3 |
| Income tax | 0,0 | 0,0 | 0,5 | 0,0 |
| Result before minority interest | -0,5 | -0,7 | -0,8 | -1,3 |
| Minority interest | 0,0 | 0,0 | 0,0 | 0,0 |
| Consolidated Net income/loss | -0,5 | -0,7 | -0,8 | -1,3 |
| Net income per share | -0,05 | -0,74 | -0,09 | -1,44 |
| Durchschnittlich im Umlauf befindliche Aktien | 9.200.000 | 914.031 | 8.763.504 | 914.031 |

CONSOLIDATED CASH-FLOW STATEMENT FOR THE PERIOD 1 JANUARY TO 30 JUNE 2001

| | 01/01-30/06 2001 millions of € | 01/01-30/06 2000 millions of € |
|--------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Operating activities | | |
| Result before taxes | -1,3 | -1,3 |
| Result after taxes | <u>-0,8</u> | <u>-1,3</u> |
| Adjustments for: | | |
| Depreciation | 0,3 | 0,3 |
| Minority interests | <u>0,0</u> | <u>0,0</u> |
| Operating result before changes in net current assets | <u><u>-0,5</u></u> | <u><u>-1,0</u></u> |
| Changes in assets and liabilities: | | |
| Increase(-)/decrease in receivables and other current assets, accruals and deferrals and deferred tax assets | -2,8 | -0,3 |
| Increase (-)/decrease in inventories | -2,0 | 0,0 |
| Increase(-)/decrease in trade payables and other short-term provisions and liabilities | 1,2 | 0,6 |
| Cash provided by operating activities | <u><u>-4,1</u></u> | <u><u>-0,7</u></u> |
| Investment activities | | |
| Purchase of fixed assets | <u>-1,9</u> | <u>-0,7</u> |
| Cash used in investment activities | <u><u>-1,9</u></u> | <u><u>-0,7</u></u> |
| Financing activities | | |
| Cash provided by/used for (-) long-term bank loans | -0,1 | 0,1 |
| Cash provided pay/used for (-) short-term bank loans | 0,0 | 0,8 |
| Contributions to subscribed capital and capital reserves | 16,8 | 0,0 |
| Additions to minority interests | <u>0,0</u> | <u>0,0</u> |
| Cash provided by/used for (-) financing activities | <u><u>16,7</u></u> | <u><u>0,8</u></u> |
| Net increase/decrease in liquid funds | <u><u>10,7</u></u> | <u><u>-0,6</u></u> |
| Cash and cash equivalents at the beginning of the reporting period | <u><u>2,8</u></u> | <u><u>0,6</u></u> |
| Cash and cash equivalents at the end of the reporting period | <u><u>13,5</u></u> | <u><u>0,0</u></u> |

SUNWAYS AG, CONSTANCE

CHANGES IN SHAREHOLDERS' EQUITY 1 JANUARY TO 30 JUNE 2001

| | Subscribed capital millions of € | Contributions made for the implementation of the capital increase millions of € | Reserves millions of € | Profit/ loss carried forward millions of € | Total millions of € |
|---------------------------|-------------------------------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------|--------------------------------|
| 1 January 2001 | 5,5 | 1,1 | 0,0 | -4,8 | 1,8 |
| Cash capital increase | 2,6 | | 15,7 | | 18,3 |
| Costs of the public offer | | | -1,5 | | -1,5 |
| Reclassification | 1,1 | -1,1 | | | 0,0 |
| Net loss | | | | -0,8 | -0,8 |
| 30 June 2001 | 9,2 | 0,0 | 14,2 | -5,6 | 17,8 |