

Sunways AG, Constance

Quarterly report III / 2002

Sunways AG, Constance
Notes to the Consolidated Interim Financial Statements (IAS)
as of 30 September 2002

A. Major Events of the 3rd Quarter 2002

- Approx. 30% rise in sales against the comparative prior year period
- A distribution partner has been won for Asia
- 100% acquisition of the remaining interests in MHH Solartechnik GmbH, Tübingen
- Difficult market situation has an impact on the 3rd quarter 2002

B. Accounting Principles

This quarterly report was prepared in accordance with the International Accounting Standards (IAS). The accounting and valuation principles applied were the same as for the consolidated financial statements for the fiscal year ended on 31 December 2001.

In the preparation of these interim financial statements the Company has taken into account the requirements of the Deutsche Börse for the preparation of structured quarterly reports which have come into effect on 18 October 2001. In addition, the Company has taken into account IAS 34 in the preparation of this interim report.

C. Business Operations

Following the restrained market development in the first quarter 2002, the generally expected upswing of the German photovoltaic market did not occur. Uncertainties with respect to the political framework conditions as well as the non-occurrence of the economic recovery forecast for the 2nd half-year resulted in marked purchasing reluctance.

1. Sales and Gross Performance

Despite the difficult environment, Sunways was able to increase sales in the first nine months by approx. 30% to € 16.5 million over the comparable prior year period.

Gross performance in the first nine months amounted to € 18.2 million (+ 16%).

3rd Quarter 2002

	3 rd Quarter 2001 Millions of €	3 rd Quarter 2002 Millions of €	Change	
			Millions of €	In %
Solar cells	0.6	1.7	+1.1	+183
Solar systems	5.4	4.9	-0.5	-9
Total	6.0	6.6	+0.6	+10

01/01 to 30/09/2002

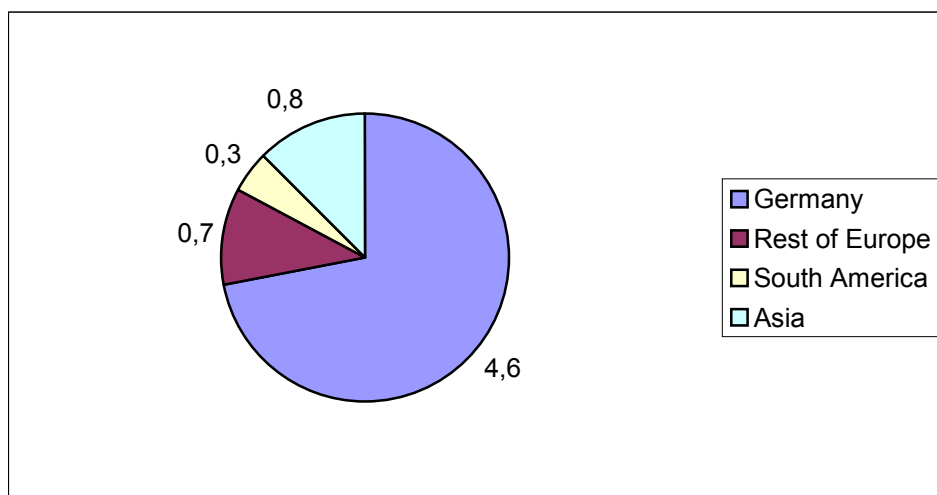
	01/01 to 30/09/2001 Millions of €	01/01 to 30/09/2002 Millions of €	Change Millions of €	In %
Solar cells	2.0	6.4	+4.4	+220
Solar systems	10.6	10.1	-0.5	-5
Total	12.6	16.5	+3.9	+31

Solar Cells

Sales in the solar cell division increased over the comparative prior year period by 220%.

In order to further reduce the dependence on the German sales market, the internationalisation efforts have been continued briskly. Meanwhile, Sunways generates 29% of its sales abroad (prior year: 9% in Europe).

Geographic break-down of solar cell sales in millions of Euro:



According to plan, the majority of sales in the solar cell sector related to standard solar cells.

In the area of transparent solar cells, additional interesting projects were realised in the current financial year. In the 3rd quarter, the largest order so far was delivered. The relevant system has a capacity of approx. 9.0 kWp and will be commissioned in early December. Additional projects in Germany and abroad are in a stage of concrete planning and, in some cases, will be included in the sales of the 4th quarter 2002.

Solar Systems

Due to the non-occurrence of the market recovery in Germany in the 3rd quarter, sales in the systems business dropped by approx. 11% against the comparable prior year period. This was inter alia due to the hesitant development with respect to grants of KfW funds under the 100,000 Roofs Programme.

Sales in the solar systems business almost exclusively related to Germany. Approx. € 9.7 million of total sales of € 10.1 million was generated in Germany and € 0.4 million abroad. The contribution of international sales is to be increased in this area as well.

2. Production

In the third quarter the production volume was approx. 1.1 MW. The anticipated decline by 0.2 MW was due to vacation-related absences in the summer months.

The average efficiency rate of the solar cells based on multi-crystalline silicon was improved to 14.5% earlier than planned; currently, we achieve top efficiency rates of up to 15.7%.

The preparations for the introduction of an expanded shift in order to increase capacity at the Constance plant were continued as planned. The goal is to start continuous shift operations (7 days per week) by early 2003. By further enhancing the flexibility of our production line we will be able in the future, in addition to solar cells with a 100x100 mm format, to also produce cells with 125x125 mm as well as 150x150 mm formats.

3. Procurement

Currently, the Company is in the recurring annual negotiations with wafer manufacturers with respect to supply volumes and prices for 2003. The supply situation for wafers is expected to remain stable. We anticipate a decline in prices.

4. Investments

In the third quarter, investments in fixed assets amounted to € 0.2 million. They mainly related to investments in replacement, expansion and remodeling measures for the further optimisation of the production plant.

By notarized agreement dated 19 August, 2002, Sunways has acquired the remaining shares (48.57%) in MHH Solartechnik GmbH, Tübingen. The takeover was completed against the issuance of new shares. The purchase was based on the valuation opinion of an audit company prepared in accordance with the accepted principles of the German Institute of Auditors (IdW). With this implementation of the option agreement entered into in 2000, MHH with its 6% market share among the 10 largest system houses in Germany, has been fully integrated into the Group.

5. Financing Measures and Plans

According to plan, redemption payments of € 0.2 million on the Company's existing long-term loans were made in the third quarter 2002.

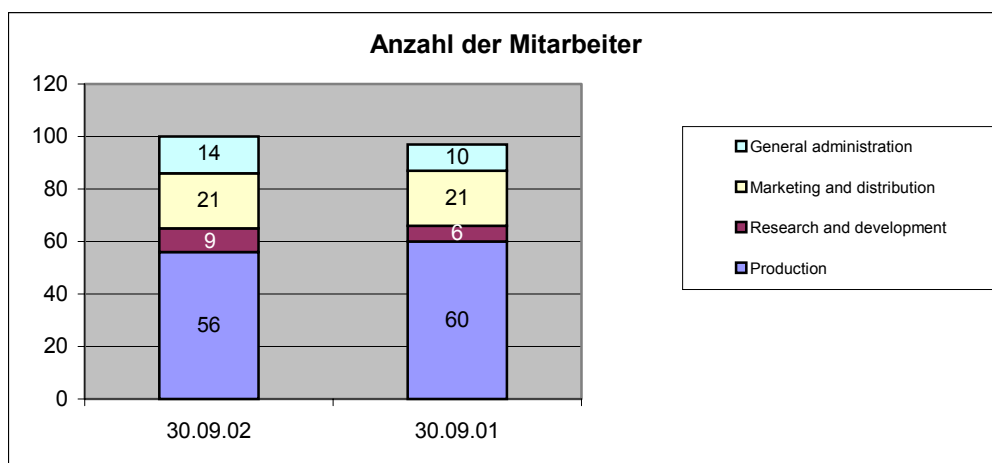
On 19 August, the Management Board, with the consent of the Supervisory Board, has resolved on a capital increase by 314,070 shares, excluding the preemptive rights of shareholders. The shares are earmarked for the 100% acquisition of MHH Solartechnik GmbH, Tübingen. The capital increase has been filed for registration with the commercial register.

Upon registration of the capital increase, the Company's share capital will amount to € 9,514,070.

6. Personnel and Social Matters

As of 30 September 2002, the Sunways Group employed a staff of 100 (prior year: 97).

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



Against the comparable prior period, the number of employees remained largely stable.

In connection with the start-up of the new research projects, additional highly qualified experts were won for the research and development sector.

7. Research and Development

In addition to the large research projects, the existing product range in the area of **solar cells** was further optimised. In the 3rd quarter the launch of the multi-crystalline Sunways POWER Cell was completed, which allows to respond more flexible to the wishes of architects in respect of the design of façades with transparent solar cells.

At present, work on additional appliances of the new inverter family are forging ahead at full capacity in the area of **inverters**. Serial production will start in spring 2003. The first prototypes are currently being tested. One of the features of the new generation of inverters is a further improvement of efficiency rates. The development cooperation with the Fraunhofer Institut für Solare Energiesysteme ISE, Freiburg, commenced in spring has already been successful in this area and led to the first patent application. Sunways has been granted the exclusive worldwide license for the use of this patent.

8. Result

The Sunways result continued to improve markedly against the prior year, although it was impossible to disregard the weak market development. The further improvement of the result scheduled for the third quarter was not reached. This was mainly due to income in the systems business that failed to come up expectations.

Earnings before interest, taxes, depreciation and amortization (EBITDA) posted a negative amount of € -0.2 million (prior year: € -0.9 million) in the 3rd quarter.

EBIT for the 3rd quarter amounted to € -0.5 million (prior year: € -1.1 million).
The consolidated net loss in the 3rd quarter was € -0.4 million (prior year: € -0.6 million).

Undiluted per share earnings (basic earnings per share pursuant to IAS 33) in the 3rd quarter amounted to € -0.04 (prior year: € -0.12).

9. 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) as well as solar systems (development, production and distribution of inverters as well as distribution of and project management for solar systems).

3rd Quarter 2002

	3 rd Quarter 2002			3 rd Quarter 2001		
	Solar cells	Solar systems	Total	Solar cells	Solar systems	Total
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	1.7	4.9	6.6	0.6	5.4	6.0
EBITDA	-0.2	0.0	-0.2	-1.2	0.2	-1.0
Depreciation and amortisation	-0.3	0.0	-0.3	-0.2	0.0	-0.2
EBIT	-0.5	0.0	-0.5	-1.4	0.2	-1.2

01/01 to 30/09/2002

	01/01 to 30/09/2002			01/01 to 30/09/2001		
	Solar cells	Solar systems	Total	Solar cells	Solar systems	Total
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	6.4	10.1	16.5	2.0	10.6	12.6
EBITDA	-0.1	-0.1	-0.3	-2.4	0.4	-2.0
Depreciation and amortization	-0.9	0.0	-0.9	-0.5	-0.1	-0.6
EBIT	-1.0	-0.2	-1.2	-2.9	0.3	-2.6

SUNWAYS AG, CONSTANCE

CONSOLIDATED BALANCE SHEET AS OF 30 SEPTEMBER 2003

	<u>30.09.02</u> millions of €	<u>31.12.01</u> millions of €
ASSETS		
Current assets		
Liquid funds	1,0	3,4
Marketable securities	2,2	4,4
Trade receivables	3,3	3,4
Inventories	8,5	5,7
Prepayments and accrued income and other current assets	<u>0,7</u>	<u>0,5</u>
Total current assets	<u>15,7</u>	<u>17,4</u>
Tangible fixed assets	6,4	6,9
Intangible assets	1,3	0,9
Financial assets	0,0	0,0
Goodwill	0,1	0,1
Deferred taxes	<u>3,4</u>	<u>2,6</u>
Total assets	<u><u>26,9</u></u>	<u><u>27,9</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	0,8	0,7
Trade payables	4,0	3,7
Advance payments received	0,0	0,0
Provisions	0,7	0,7
Income tax payable	0,1	0,1
Other current liabilities	<u>0,3</u>	<u>0,3</u>
Total current liabilities	<u>5,9</u>	<u>5,5</u>
Long-term loans	4,9	5,5
Deferred taxes	0,7	0,4
Minority interests	0,2	0,2
Shareholders' equity		
Subscribed capital	9,2	9,2
Capital reserve	13,8	14,0
Balance sheet profit/loss	<u>-7,8</u>	<u>-6,9</u>
Total shareholders' equity	<u>15,2</u>	<u>16,3</u>
Total liabilities and shareholders' equity	<u><u>26,9</u></u>	<u><u>27,9</u></u>

Possible rounding differences

SUNWAYS AG, CONSTANCE
CONSOLIDATED INCOME STATEMENT FOR THE
FINANCIAL YEAR 2002

	II/2002 01.07.2002- 30.09.2002 millions of €	II/2001 01.07.2001- 30.09.2001 millions of €	01.01.2002- 30.09.2002 millions of €	01.01.2001- 30.09.2001 millions of €
Sales	6,5	6,0	16,4	12,6
Changes in inventories of finished and unfinished goods	<u>0,8</u>	<u>1,0</u>	<u>1,7</u>	<u>3,0</u>
Gross performance	<u>7,3</u>	<u>7,0</u>	<u>18,1</u>	<u>15,6</u>
Other operating income	0,1	0,1	0,5	0,2
Cost of materials	-6,1	-6,3	-14,3	-13,4
Personnel expenses	-0,9	-1,0	-2,7	-2,3
Depreciation and amortization	-0,3	-0,2	-0,9	-0,5
Other operating expenses	<u>-0,6</u>	<u>-0,8</u>	<u>-1,9</u>	<u>-2,2</u>
Operating result (EBIT)	<u>-0,5</u>	<u>-1,2</u>	<u>-1,2</u>	<u>-2,6</u>
Interest income/expenses	<u>0,0</u>	<u>0,1</u>	<u>-0,2</u>	<u>0,1</u>
Result before taxes and minority interests	<u>-0,5</u>	<u>-1,1</u>	<u>-1,4</u>	<u>-2,5</u>
Taxes on income	<u>0,1</u>	<u>0,0</u>	<u>0,5</u>	<u>1,1</u>
Result before minority interests	<u>-0,4</u>	<u>-1,1</u>	<u>-0,9</u>	<u>-1,4</u>
Minority interests	<u>0,0</u>	<u>0,0</u>	<u>0,1</u>	<u>-0,1</u>
Consolidated net income/loss	<u><u>-0,4</u></u>	<u><u>-1,1</u></u>	<u><u>-0,9</u></u>	<u><u>-1,5</u></u>
Earnings per share	-0,04	-0,12	-0,10	-0,17
Average number of outstanding shares	9.200.000	9.200.000	9.200.000	8.909.003
Possible rounding differences				

SUNWAYS AG, CONSTANCE
CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2002

	01.01.-30.09. 2002	01.01.-30.09. 2001
	millions of €	millions of €
Operating activities		
Result after taxes and before minority interests	-1,0	-1,5
Adjustments for:		
Depreciation	0,9	0,5
Minority interests	0,1	-0,1
Operating result before changes in net current assets	0,0	-1,1
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals and deferred tax assets	-2,0	-3,4
Increase (-)/decrease in inventories	-2,8	-3,1
Increase (-)/decrease in trade payables and other other short-term provisions, liabilities and deferred tax liabilities	0,7	2,0
Cash provided by operating activities	-4,1	-5,6
Investment activities		
Purchase of fixed assets	-0,8	-3,3
Cash used in investment activities	-0,8	-3,3
Financing activities		
Cash provided by/used for (-) long-term loans	-0,7	-0,7
Cash provided by/used for (-) short-term bank loans	0,1	-0,2
Contributions to subscribed capital and capital reserves	-0,1	16,3
Increase/decrease in minority interests	-0,1	0,1
Cash provided by/used for (-) financing activities	-0,8	15,5
Net increase/decrease in liquid funds	-4,6	6,6
Cash and cash equivalents at the beginning of the reporting period	7,8	2,8
Cash and cash equivalents at the end of the reporting period	3,2	9,4
Composition of liquid funds at the end of the reporting period		
Marketable securities	2,2	8,4
+ Cash	1,0	1,0
	3,2	9,4

Possible rounding differences

SUNWAYS AG, CONSTANCE
CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01 to 30/09/2002

	Subscribed capital millions of €	Contributions made for the implementation of the capital state Einlagen 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
Reclassification	1,1	-1,1			0,0
Cash capital increase	2,6		15,7		18,3
Costs of public offer (after taxes)			-1,5		-1,5
Revaluation of marketable securities			-0,2		-0,2
Net loss				-2,1	-2,1
31 December 2001	9,2	0,0	14,0	-6,9	16,3
1 January 2002	9,2	0,0	14,0	-6,9	16,3
Revaluation of marketable securities			-0,2		-0,2
Net income				-0,9	-0,9
30 September 2002	9,2	0,0	13,8	-7,8	15,2

Possible rounding differences

D. Shareholdings of Members of Executive Bodies

The following table shows the numbers of Sunways shares and options held by members of the Management Board and Supervisory Board as of 30 September 2002:

	Number of Shares as of 30/9/2002	Number of Options as of 30/09/2002	Lock-up until
Management Board			
Roland Burkhardt	1,775,655	10,000	09/02/2003
Bernd Fessler	56,000	10,000	09/02/2003
Supervisory Board			
Dr. Roland Bahr, Chairman	9,902		
Otto Mayer, Deputy Chairman	655, 146		
Ernst Haug	3,695		
Franz Heim	1,685,654		9/02/2003
Heinz W. Bull			
Manfred Schulz			

E. Subsequent Events and Outlook for the Total Year 2002

Due to the weak market development in the 3rd quarter, it has to be assumed that the target sales and results announced for the full year 2002 cannot be reached. This is mainly due to the development in the systems business, which failed to come up to expectations and, so far, has been strongly dependent on the German market.

There are first indications of a significant market recovery expected to occur in the 4th quarter. This will have a positive impact on the sales and results of Sunways in the future. However, this recovery is anticipated not to be sufficient to set off the weaker growth mainly in the 3rd quarter 2002.

All in all, according to the current planning, the Company expects consolidated sales of approx. € 23.5 million for the fiscal year 2002, corresponding to a sales growth of 10% against the prior year (the initially budgeted sales growth was approx. 48%). With respect to the Group result before interest and taxes (EBIT), the Company anticipates a markedly lower loss than in the prior year of € 1.8 million (income of € 0.1 million was initially budgeted).

In order to be able to respond flexibly to the market development in 2003, the capacity of the production plant at the Constance location will be expanded from currently 5 MW to approx. 10 MW as of 1 January 2003. In addition, a further - also gradual - expansion of the production capacities is possible, irrespective of the location.

The Management Board
November 2002

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