

Sunways AG, Constance

3rd Quarter Report 2004



Sunways AG, Constance
Notes to the Consolidated Interim Financial Statements (IAS)
as of 30 September 2004

Highlights

1. Major Events of the Third Quarter 2004

- Sales rise by almost 80 percent over the comparable prior year period
- EBIT rise to Euro+1.6 million in the third quarter; EBIT margin at 8 percent
- Best nine-month result since the Company's inception
- Positive market development undiminished

2. Accounting Principles

We have prepared this quarterly report 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 industry continues to be marked by extremely strong demand and is growing incessantly. The amendment of the Act on Renewable Energies (Erneuerbare Energien Gesetz - EEG) has had a very positive impact on private solar energy users' propensity to invest. This development results in a continuous rise of incoming orders also at our Company.

It seems to prove true that this year the German photovoltaics market will for the first time outperform the Japanese market. The market recovery also continues to be gaining momentum from the U.S. market, in particular California. The simultaneous growth in these major markets results in a high degree of utilization of production capacities in combination with longer periods of delivery.

Undiminished propensity
to invest in the photovoltaics sector



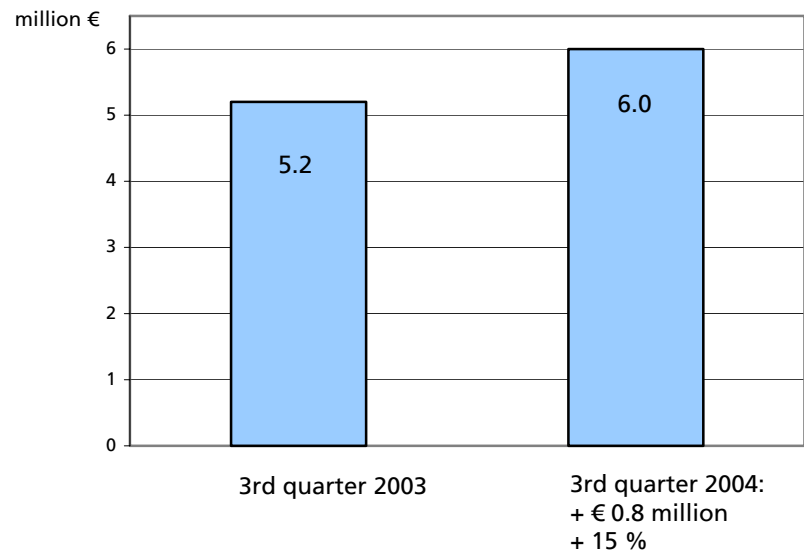
Capacity utilization secured

3.1 Solar Cells

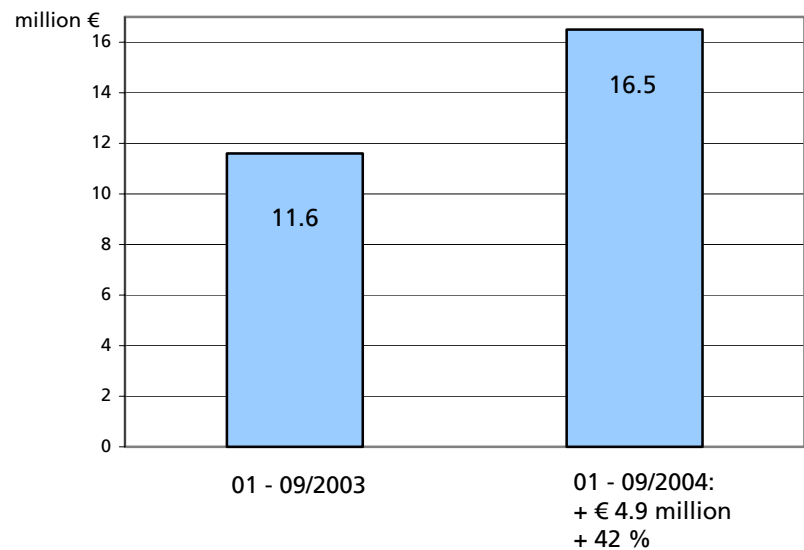
The Act on Renewable Energies (Erneuerbare Energien Gesetz - EEG) creates a strong demand for our solar cells. The utilization of production capacities has been secured for the current year. The presently existing order backlog will last well into the fourth quarter 2005.

Quarterly comparison:
15 percent rise in sales

Sales



Nine-month comparison:
42 percent rise in sales





Sales rose over the comparable prior year period by approx. 42 percent to Euro 16.5 million (prior year: Euro 11.6 million). The development of the international business in the third quarter was very satisfactory. In the third quarter, Sunways generated about 15 percent of Group sales (prior year: 10 percent) in the countries of the European Union (Spain, Austria, Italy, Sweden). The share of the other regions (Japan, Switzerland, China) amounted to 0.5 percent (prior year: one percent).

As planned, sales in the solar cell division largely accounted for standard solar cells. Our new product, the Monocrystalline Sunways Solar Cell, experienced a particularly positive development. Due to strong customer demand, we produced approx. 1.3 Megawatt of this cell type in the first three quarters.

Price Development

The strong demand and high degree of utilization of production capacities worldwide resulted in a stabilization of solar cell prices at a satisfactory level. In view of this market situation, we do not expect prices to decline in the short term. No significant increase in prices is anticipated either as production capacities are being expanded continuously.

Production

We were able to maintain a high level of productivity in the third quarter. In the first nine months, we produced 7.9 Megawatt thereby outperforming the total 2003 result (6.6 Megawatt).

The average efficiency rate of our Solar Cells made of multicrystalline silicon was approximately 14.7 percent and thus increased by 1.3 percentage points against the prior year. Currently, top efficiency rates of up to 16 percent are reached. Monocrystalline Sunways Solar Cells reach efficiency rates of up to about 17 percent and thus hold a top position in technology.

Technology

The focus of our research and development activities continues to be on the further reduction of the production costs of the Transparent Sunways Solar Cell as well as on the continuous increase of the efficiency rates of this solar cell type and of the multi- and monocrystalline solar cells. We also cooperate with national and international research institutes to continuously advance large development projects (cost-efficient wafer material, back-contact solar cell).

Investments

Investments in the solar cell division in the past quarter amounted to Euro 0.4 million and related mainly to more flexible production facilities.



Strong demand

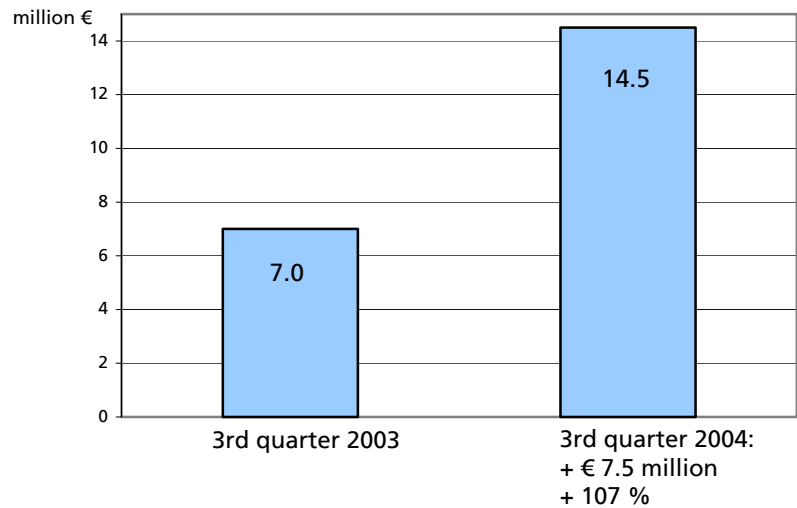
3.2 Solar Systems and Projects

The business division of solar systems and projects was again marked by strong demand in the third quarter. The trend of the previous quarter continued.

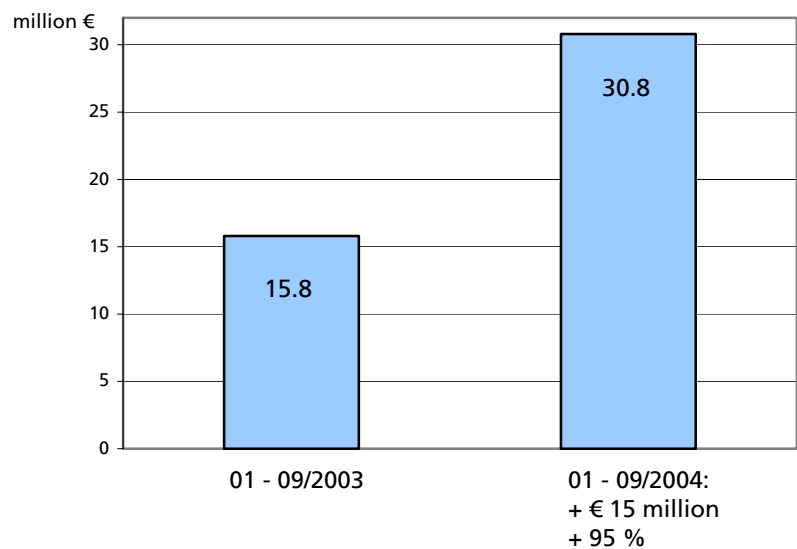
As a result of the strong demand, no solar modules are available any longer in the global market. Against this background, new projects in the systems business are being postponed to the year 2005.

Sales

Quarterly comparison:
107 percent rise in sales



Nine-month comparison
95 percent rise in sales



Sales in this business division rose by 95 percent to Euro 30.8 million (prior year: Euro 15.8 million) in the first nine months 2004.



Excellent orders position
at MHH Solartechnik

The Group's own solar modules offered under the „MHH“ brand name were again successfully sold. The share in module sales in the third quarter amounted to approx. 35 percent (prior year: 25 percent). We expect the sales contribution in this area to increase again during the rest of the year.

98 percent of sales were generated in Germany (prior year: 95 percent). Due to the dramatic increase of the demand in Germany, exports were reduced to support German customers. International sales accounted for markets within the EU and Switzerland.

Price Development

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

Production of New Solar Inverter Generation

Our production partner has introduced a second production shift to meet the strong demand for Sunways Solar Inverters. Production capacities for the modules sold under the „MHH“ brand name were also increased to the maximum.

Solar Inverters with a capacity
of 16.5 MW installed in the
first nine months

Sunways Solar Inverters with a total capacity of 16.5 Megawatt were installed in the first nine months. Our business activities in Spain again experienced a continuously positive development: We have recorded a steadily rising demand for Sunways Solar Inverters since our market entry.

Investments

No major investments were effected in the third quarter.

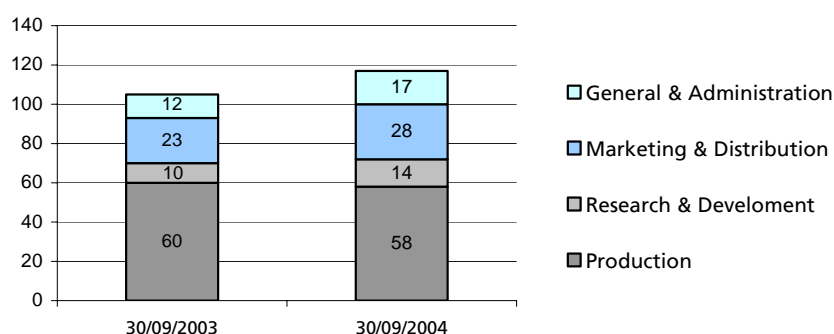
4. Financing

In the first nine months, the redemption of bank loans continued as planned. Redemption payments in the reporting period amounted to approx. Euro 0.6 million.



5. Personnel and Social Matters

As of 30 September 2004, the Sunways Group employed a staff of 117 (as of 30 September 2003: 105). The break-down of employees by functions was as follows:



Turnaround sustained;
markedly positive EBIT;
result better than expected

6. Result

Following the good result of the first half-year, the positive development also continued in the third quarter:

Sales of Euro 47 million were generated in the first nine months of which Euro 20.2 million related to the third quarter.

EBIT are positive. At Euro +2.6 million for the first nine months, they were better than expected and by far exceeded the prior year figure of Euro -1.8 million. EBITDA amount to Euro 3.8 million (prior year: Euro -0.7 million). The consolidated net income for the first nine months 2004 amounts to Euro 1.4 million (prior year: consolidated net loss of Euro -1.3 million).

These satisfactory figures are inter alia due to the positive development of the inverter business. Trade sales rose again as, among other things, an additional Asian supplier was found in the module area.

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) at the end of the first nine months 2004 amounted to Euro 0.15 (prior year: Euro -0.14). Diluted earnings equal 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).

	3rd quarter 2004				3rd quarter 2003			
	Solar cells Millions of €	Solar systems Millions of €	Conso- lidation Millions of €	Total Millions of €	Solar cells Millions of €	Solar systems Millions of €	Conso- lidation Millions of €	Total Millions of €
Sales	6.0	14.5	-0.3	20.2	5.2	7.0	-1.0	11.2
EBITDA	+0.2	+1.7		+1.9	0.5	0.0		+0.5
Depreciation / amortization	-0.3	0.0		-0.3	-0.3	0.0		-0.3
EBIT	-0.1	+1.7		+1.6	0.2	0.0		+0.2

	01 - 09/2004				01 - 09/2003			
	Solar cells Millions of €	Solar systems Millions of €	Conso- lidation Millions of €	Total Millions of €	Solar cells Millions of €	Solar systems Millions of €	Conso- lidation Millions of €	Total Millions of €
Sales	16.5	30.8	-0.3	47.0	11.6	15.8	-1.2	26.2
EBITDA	+0.8	+3.0		+3.8	-0.3	-0.4		-0.7
Depreciation / amortization	-1.0	-0.2		-1.2	-0.9	-0.2		-1.1
EBIT	-0.2	+2.8		+2.6	-1.2	-0.6		-1.8

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Balance Sheet
as of 30 September 2004

	30/09/2004 Millions of €	31/12/2003 Millions of €
ASSETS		
Current assets		
Liquid funds	3.3	2.2
Marketable securities	1.1	0.4
Trade receivables	6.2	1.9
Inventories	6.4	6.4
Prepayments and accrued income and other current assets	0.3	0.7
Total current assets	17.3	11.6
Tangible fixed assets	6.1	6.1
Intangible assets	1.4	1.7
Financial assets	0.0	0.0
Goodwill	0.2	0.3
Deferred taxes	3.8	4.6
Total assets	28.8	24.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	1.0	1.2
Trade payables	6.8	2.9
Provisions	1.0	1.0
Income tax payable	0.3	0.1
Other current liabilities	0.8	0.6
Total current liabilities	9.9	5.8
Long-term loans	3.1	4.0
Deferred taxes	0.4	0.5
Shareholders' equity		
Subscribed capital	9.5	9.5
Capital reserve	14.4	14.3
Accumulated profit / loss	-8.4	-9.8
Total shareholders' equity	15.5	14.0
Total liabilities and shareholders' equity	28.8	24.3

(Rounding differences are possible)



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

	01/07 - 30/09/2004 Millions of €	01/07 - 30/09/2003 Millions of €	01/01 - 30/09/2004 Millions of €	01/01 - 30/09/2003 Millions of €
Sales	20.2	11.2	47.0	26.2
Changes in inventories of finished and unfinished goods	-0.6	-0.8	-1.6	-2.6
Gross performance	19.6	10.4	45.4	23.6
Other operating income	0.1	0.3	0.1	0.7
Cost of materials	-14.9	-8.2	-34.9	-19.4
Personnel expenses	-1.4	-1.1	-3.7	-3.2
Depreciation and amortization	-0.4	-0.4	-1.3	-1.1
Other operating expenses	-1.4	-0.8	-3.0	-2.4
Operating result (EBIT)	1.6	0.2	2.6	-1.8
Interest income / expenses	-0.1	-0.1	-0.2	-0.2
Result before taxes	1.5	0.1	2.4	-2.0
Taxes on income	-0.6	0.0	-0.9	0.7
Consolidated net income / loss	0.8	0.1	1.4	-1.3
Earnings per share (Consolidated net income/loss : number of shares; here: diluted = undiluted)	0.08	0.01	0.15	-0.14
Average number of shares outstanding	9,514,070	9,514,070	9,514,070	9,514,070

(Rounding differences are possible)



Sunways AG, Constance
Consolidated Cash-Flow Statement
for the Fiscal Year 2004

Operating activities

Result before taxes and minority interests

Adjustments for:

Depreciation and amortization

Operating result before changes in net current assets

Changes in assets and liabilities:

Increase (-)/decrease in receivables and other current as-
 sets, accruals and deferrals and deferred tax assets

Increase (-)/decrease in inventories

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

Cash provided by operating activities

Investment activities

Purchase of fixed assets

Cash used for investment activities

Financing activities

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 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 - 30/09/2004	01/01 - 30/09/2003
	Millions of €	Millions of €
	1.4	-1.3
	1.3	1.1
	2.7	-0.2
	-3.2	-0.4
	0.0	-1.4
	4.3	1.5
	3.8	-0.5
	-1.1	-0.9
	-1.1	-0.9
	-0.9	-0.7
	-0.2	0.1
	0.1	0.0
	-1.0	-0.6
	1.7	-2.0
	2.6	4.1
	4.3	2.1
	1.1	0.3
	3.3	1.8
	4.3	2.1

(Rounding differences are possible)



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 30/09/2004

	Subscribed capital Millions of €	Reserves Millions of €	Profit/loss brought forward Millions of €	Total 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				
Net loss			-1.6	-1.6
31 December 2003	9.5	14.3	-9.8	14.0
01 January 2003	9.5	14.1	-8.2	15.4
Capital increase against contribution in kind				
Revaluation of marketable securities		0.1		0.1
Net loss			-1.3	-1.3
30 September 2003	9.5	14.2	-9.5	14.2
01 January 2004	9.5	14.3	-9.8	14.0
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

(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 30 September 2004.

	Shares as of 30/09/2004	Options as of 30/09/2004
Management Board		
Roland Burkhardt	1,880,345	40,000
Supervisory Board		
Dr. Roland Bahr, chairman	9,902	
Otto Mayer, deputy chairman	759,836	
Ernst Haug	3,695	
Franz Heim	1,187,690	
Heinz W. Bull	0	
Frank Wehking	0	

Directors' Dealings

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.



Record year for
the solar market

9. Outlook for the Total Fiscal Year 2004

2004 will be a record year for the German photovoltaics industry. The Federal Association of the Solar Industry (Bundesverband Solarindustrie – BSI) has again made an upward adjustment to its prognoses and expects capacities of 300 MWp to be newly installed in the current year (prior year: 130 MWp). The development in the Spanish market also continues and should result in a rise similar to that in Germany over the next years. As this also applies to the markets in Japan and the USA, a stable market price is to be expected.

We have decided to expand our production line in Constance at the end of 2004 to enable us to produce the 156 mm format in Constance. The financing of the new production plant in Arnstadt/Thuringia has been secured by the successful placement of the Sunways convertible bonds.

Positive result
secured for 2004

The excellent result shows that the Group is heading in the right direction. We expect a stable result in the fourth quarter and thus also anticipate a continuation of the Company's positive development. Therefore, in all likelihood, the planned positive result for the entire fiscal year 2004 is secured. Sales for the entire fiscal year should be significantly more than Euro 60 million.

The Management Board
10 November 2004

Financial calendar 2004 / 2005

30 March 2005	Annual report 2004
19 May 2005	General meeting, Constance
19 May 2005	Results of operations 1st quarter 2005
09 August 2005	Results of operations 2nd quarter 2005
09 November 2005	Results of operations 3rd quarter 2005
09 November 2005	Analysts' conference, Frankfurt am Main

This quarterly report is also available in the German language. In addition, our annual and quarterly reports as well as current information may also be obtained via the Internet (www.sunways.de).

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