



Sunways AG, Constance
2nd Quarter Report 2004



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

Highlights

1. Major Events of the Second Quarter 2004

- Sales rise by 70 percent over comparable prior year period
- At Euro 1.2 million, EBIT reach the break-even for the first time in the second quarter; EBIT margin of 7.4 percent
- Best semi-annual result of the Company's history
- Strong market development is continuing

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 development of the photovoltaics industry in the reporting period was marked by extremely strong demand. Private solar energy users' propensity to invest has experienced a very positive development since the amendment of the Act on Renewable Energies (Erneuerbare Energien Gesetz - EEG). Investments postponed during the second half-year 2003 have been implemented, the overall business of the photovoltaics segment has been massively growing ever since. In line with this development, Sunways has posted a continuously rising number of new orders since the beginning of 2004.

Undiminished propensity
to invest in the photovoltaics sector

This year, the German photovoltaics market will outperform the Japanese market for the first time. The market recovery is also gaining momentum from the U.S. market, in particular California. The fact that these three major markets simultaneously experience a strong growth results in a high degree of utilization of production capacities in combination with longer periods of delivery.



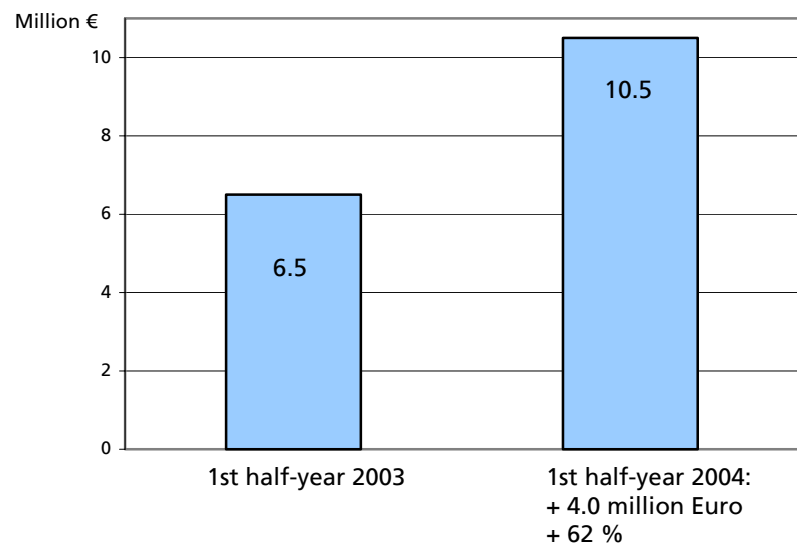
Capacity utilization secured

3.1 Solar Cells

The reduction of the pile-up of investment projects of the year 2003 has resulted in a continuously strong development of the solar cell business division in the first half-year. The utilization of production capacities has been secured for the current year. The presently existing order backlog will last well into the second quarter 2005.

62 percent rise in solar cell sales

Sales



Sales rose over the comparable prior year period by approx. 62 percent to 10.5 million Euro (prior year: 6.5 million Euro).

The development of the international business was very satisfactory in the second quarter. In the second quarter, Sunways generated about 10.9 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 2.1 percent.

As planned, the majority of sales in the solar cell division accounted for standard solar cells. The demand for Monocrystalline Sunways Solar Cells experienced a particularly positive development in the first half-year. Due to strong customer demand, we were able to produce approx. 250 kWp of this cell type in the first half-year (prior year: 0 kWp).



Price Development

The strong demand and high utilization of production capacities worldwide resulted in a stable price development in the solar cell market. 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

In the past half-year, Sunways also markedly increased its production output against the prior year. By further optimizing the production line, we again adjusted our capacity utilization to the strong demand in the market.

The average efficiency rate of solar cells made of multicrystalline silicon was approx. 14.7 percent and thus increased by 1.3 percentage points against the prior year. Currently, we reach top efficiency rates of up to 16 percent. The monocrystalline 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 type of solar cell and of the multicrystalline 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).

Another focal point in the first-half year was to enable the manufacture of monocrystalline solar cells on our existing production line. The rapid and successful results demonstrate our experience in the field of efficient production technologies.

Investments

Investments in the solar cell division in the past quarter amounted to 0.6 million Euro and related mainly to the decrease in the consumption of chemicals and to capitalized development costs.



Strong demand

3.2 Solar Systems and Projects

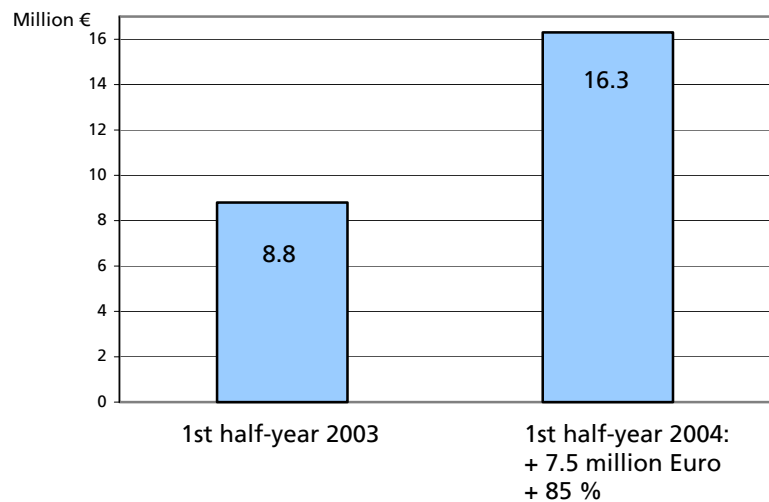
The business division of solar systems and projects was again marked by strong demand in the second quarter. The trend of the previous quarter continued.

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.

In April 2004, our subsidiary MHH Solartechnik GmbH opened a sales office in Munich in order to be closer to Bavaria-based customers.

85 percent rise in sales of solar systems and projects

Sales

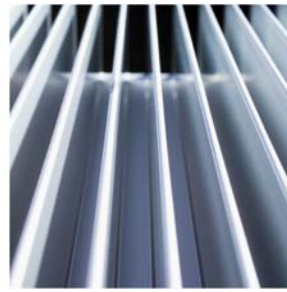


Sales in this business division rose by 85 percent to Euro 16.3 million (prior year: Euro 8.8 million) in the first half-year 2004.

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 first quarter amounted to approx. 31 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 strengthen German customers. Foreign 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 for the next few months.

Production of New Inverter Generation

In the first quarter, the strong demand resulted in difficulties with respect to the procurement of electronic components for the production of solar inverters which were overcome in the second quarter 2004. The Company expects that it will be possible to meet the future demand. The production figures budgeted by Sunways are already exceeded by far so that the Company's positive development may progress further.

Solar Inverters with a capacity of 10 MW installed in the first half-year

The solar inverter business has become significantly more important. In the first half-year 2004, Sunways Solar Inverters with a total capacity of 10 Megawatt were installed. Following our entry to the Spanish market, we have also recorded initial successes of the Sunways Solar Inverter and increasing demand in Spain.

Expansion of the production of Sunways Solar Inverters

Our production partner has introduced a second production shift to increase production capacities and to simultaneously shorten delivery periods. Our production capacities for the modules sold under the „MHH“ brand name were also maximized.

Investments

Investments in fixed assets amounted to 0.1 million Euro and mainly related to capitalized development costs as well as investments in office and plant equipment and EDP software.

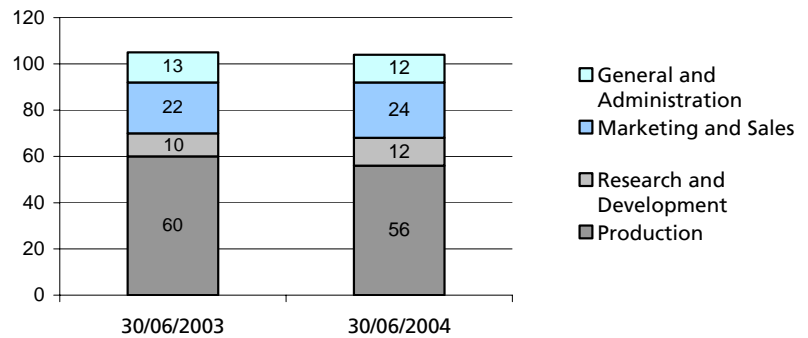
4. Financing

In the first half-year 2004, we redeemed bank loans as planned. Redemption payments in the reporting period amounted to approx. 0.9 million Euro.



5. Personnel and Social Matters

As of 30 June 2004, the Sunways Group employed a staff of 104 (as of 30 June 2003: 105). The break-down of employees by functions was as follows:



Markedly positive EBIT – result far better than expected

6. Result

Positive EBIT were generated in the first half-year 2004. At +1.0 million Euro, they are markedly better than expected and rose against the prior year figure of –1.9 million Euro. This significant turnaround was due to the stable cost structure as well as a strong increase in sales. At 1.9 million Euro, EBITDA rose over the prior year level by 258 percent (prior year: -1.2 million Euro).

Consolidated net income amounted to Euro 0.6 million (prior year: net loss –1.3 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) in the first half-year amounted to Euro 0.06 (prior year: -0.14 Euro). Diluted earnings equal undiluted earnings.

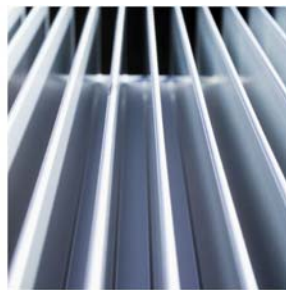


7. Segment Reporting

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).

	1st half-year 2004				1st half-year 2003			
	Solar cells	Solar systems	Conso- lidation	Total	Solar cells	Solar systems	Conso- lidation	Total
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	10.5	16.3		26.8	6.5	8.8	-0.3	15.0
EBITDA	+0.6	+1.3		+1.9	-0.9	-0.4		-1.3
Depreciation / amortization	-0.7	-0.2		-0.9	-0.5	-0.1		-0.6
EBIT	-0.1	+1.1		+1.0	-1.4	-0.5		-1.9
	2nd quarter 2004				2nd quarter 2003			
	Solar cells	Solar systems	Conso- lidation	Total	Solar cells	Solar systems	Conso- lidation	Total
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	6.2	10.1		16.3	4.0	5.9	-0.3	9.6
EBITDA	+0.7	+1.0		+1.7	-0.4	-0.1		-0.5
Depreciation / amortization	-0.4	-0.1		-0.5	-0.2	0.0		-0.2
EBIT	+0.3	+0.9		+1.2	-0.6	-0.1		-0.7

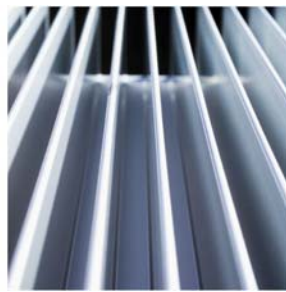
(Rounding differences are possible)



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

	30/06/2004	31/12/2003
	Millions of €	Millions of €
ASSETS		
Current assets		
Liquid funds	2.3	2.2
Marketable securities	0.4	0.4
Trade receivables	4.9	1.9
Inventories	5.4	6.4
Prepayments and accrued income and other current assets	0.6	0.7
Total current assets	13.6	11.6
Tangible fixed assets	6.2	6.1
Intangible assets	1.5	1.7
Financial assets	0.0	0.0
Goodwill	0.3	0.3
Deferred taxes	4.2	4.6
Total assets	25.8	24.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	0.7	1.2
Trade payables	5.2	2.9
Provisions	0.8	1.0
Income tax payable	0.0	0.1
Other current liabilities	0.4	0.6
Total current liabilities	7.1	5.8
Long-term loans	3.6	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	-9.2	-9.8
Total shareholders' equity	14.6	14.0
Total liabilities and shareholders' equity	25.8	24.3

(Rounding differences are possible)



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

	01/04 - 30/06/2004 Millions of €	01/04 - 30/06/2003 Millions of €	01/01 - 30/06/2004 Millions of €	01/01 - 30/06/2003 Millions of €
Sales	16.3	9.6	26.8	15.0
Changes in inventories of finished and unfinished goods	<u>-1.2</u>	<u>-1.1</u>	<u>-1.0</u>	<u>-1.8</u>
Gross performance	<u>15.1</u>	<u>8.5</u>	<u>25.8</u>	<u>13.2</u>
Other operating income	0.0	0.3	0.0	0.4
Cost of materials	-11.4	-7.1	-20.0	-11.1
Personnel expenses	-1.2	-1.1	-2.3	-2.1
Depreciation and amortization	-0.5	-0.4	-0.9	-0.7
Other operating expenses	<u>-0.8</u>	<u>-0.8</u>	<u>-1.6</u>	<u>-1.5</u>
Operating result (EBIT)	<u>1.2</u>	<u>-0.7</u>	<u>1.0</u>	<u>-1.9</u>
Interest income/expenses	<u>0.0</u>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>
Result before taxes	<u>1.2</u>	<u>-0.8</u>	<u>0.9</u>	<u>-2.1</u>
Taxes on income	<u>-0.4</u>	<u>0.3</u>	<u>-0.3</u>	<u>0.8</u>
Consolidated net income / loss	<u>0.8</u>	<u>-0.5</u>	<u>0.6</u>	<u>-1.3</u>
Earnings per share	0.08	-0.05	0.06	-0.14
Average number of shares outstanding	9,514,070	9,514,070	9,514,070	9,514,070

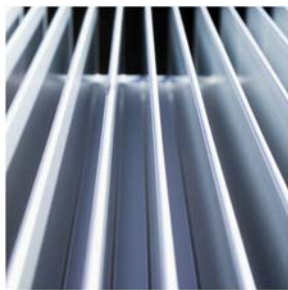
(Rounding differences are possible)



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

	01/01 - 30/06/2004	01/01 - 30/06/2003
	Millions of €	Millions of €
Operating activities		
Result before taxes and minority interests	0.9	-1.3
Adjustments for:		
Depreciation and amortization	0.9	0.7
Operating result before changes in net current assets	<u>1.8</u>	<u>-0.6</u>
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current as sets, accruals and deferrals and deferred tax assets	-2.8	-0.7
Increase (-)/decrease in inventories	1.0	-1.8
Increase (-)/decrease in trade payables and other short- term provisions, liabilities and deferred tax liabilities	1.8	1.6
Cash provided by operating activities	<u>1.8</u>	<u>-1.5</u>
Investment activities		
Purchase of fixed assets	-0.7	-0.5
Cash used for investment activities	<u>-0.7</u>	<u>-0.5</u>
Financing activities		
Cash provided by/used for (-) long-term loans	-0.4	-0.5
Cash provided by/used for (-) short-term bank loans	-0.5	-0.2
Contributions to subscribed capital and capital reserves	0.0	0.0
Cash provided by/used used for (-) financing activities	<u>-0.9</u>	<u>-0.7</u>
Net increase/decrease of liquid funds	<u>0.1</u>	<u>-2.7</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>2.7</u>	<u>1.4</u>
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.4	0.5
+ Cash	2.3	0.9
	<u>2.7</u>	<u>1.4</u>

(Rounding differences are possible)



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 30/06/2004

	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				
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
Revaluation of marketable securities		0.1		0.1
Net loss			-1.3	-1.3
30 June 2003	9.5	14.2	-9.5	14.2
01 January 2004	9.5	14.3	-9.8	14.0
Revaluation of marketable securities		0.0		0.0
Net loss			0.6	0.6
30 June 2004	9.5	14.3	-9.2	14.6

(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 June 2004.

	Shares as of 30/06/2004	Options as of 30/06/2004
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	1,271,690	
Heinz W. Bull	0	
Manfred Schulz, until 30/04/2004	0	
Frank Wehking, since 06/05/2004	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).

Manfred Schulz left the Supervisory Board as of 30 April 2004. On 6 May 2004, the General Meeting elected Mr. Frank Wehking as new member of the Supervisory Board.



Record year for the solar market

Positive result for 2004 within range

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) expects capacities of 200 MWp to be newly installed in the current year which corresponds to a growth of approximately 50 percent.

Due to the continuously strong market development also in the second quarter, a shortage of solar cells and solar modules has now occurred in the photovoltaics market, mainly in Germany.

At present, the very strong development of the German photovoltaics market seems to persist. The development of the Spanish market, where a growth similar to that in Germany should be achieved over the next few years, is also satisfactory. As this also applies to the Japanese and U.S. markets, the market price may be expected to remain stable.

We expect the Company's positive development to continue also in the second half of the year. Against this background, a positive operating result is targeted for the entire year 2004.

The Management Board
2 August 2004

Financial Calendar 2004

1 September 2004
10 November 2004
10 November 2004

Small Cap Conference, Frankfurt / Main
3rd Quarter Report 2004
Analysts' Conference, Frankfurt / Main

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