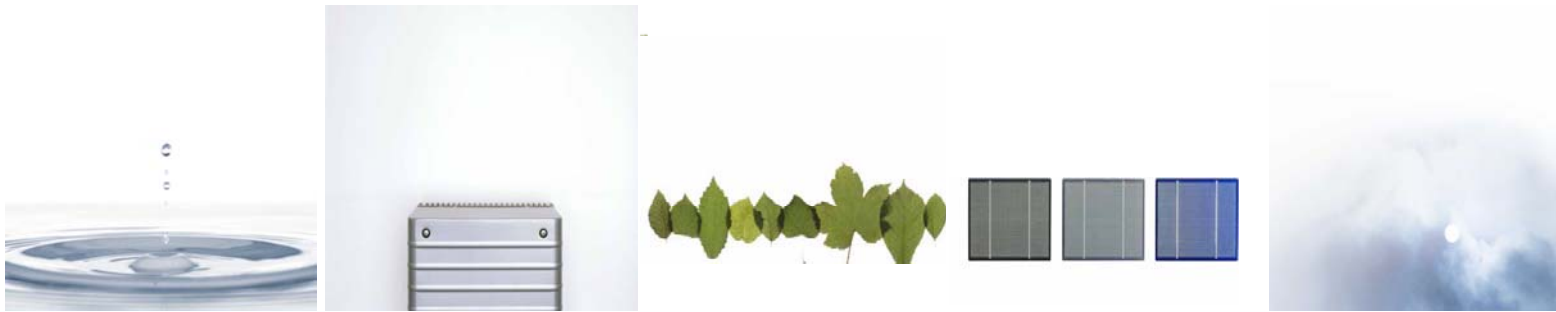




Sunways AG, Constance

2nd Quarter Report 2003



Sunways AG, Constance

Notes to the Consolidated Interim Financial Statements (IAS) as of 30 June 2003

Highlights

1. Major Events of the Second Quarter 2003

- Rise in sales of approx. 60%
- Start of serial production of the new generation of inverters (Solar Inverter NT)
- New successful projects with the Transparent Sunways Solar Cell
- Significant rise in the photovoltaics market

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 2002.

3. Business Operations

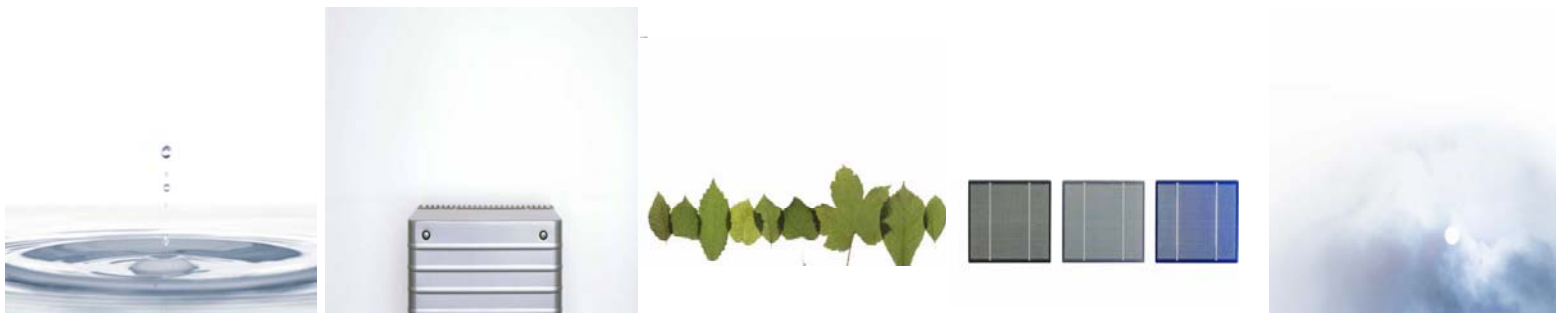
The worldwide economic development in the first half-year 2003 fell short of expectations. In Germany, the gross domestic product (GDP) in the second quarter remained stagnant, at best. Only a very slight recovery is expected in the second half-year.

Irrespective of this hesitant overall economic development, the photovoltaics markets in Germany and Europe continued to grow in the first half-year 2003. In the first six months, new applications relating to a volume of 104 MWp (prior year: 28 MWp) were received by Kreditanstalt für Wiederaufbau for the 100,000 Roofs Programme under which interest-subsidized loans are granted to purchasers of photovoltaic systems. Due to the high demand, the programme, which was initially scheduled to expire on 31 December 2003, was prematurely terminated as of 30 June 2003.

In the first six months, applications for a total volume of 61 MWp were approved. The Bundesverband Solarindustrie (Federal Association of the Solar Industry - BSi) anticipates a market volume of 120 MWp for the entire year. This corresponds to a 50 percent growth against the prior year.

According to the plans of the Federal Environmental Minister, the promotion no longer available under the 100,000 Roofs Programme will be compensated for by the envisaged amendment to the Act on Renewable Energies (Erneuerbare Energien Gesetz - EEG). The goal is to realign public promotion from 2004 on without any adverse effects on the overall promotion situation. The terms of the EEG amendment will have a decisive impact on the growth of the photovoltaics industry in Germany. The solar industry hopes that reliable framework conditions to form a solid basis for further market growth in Germany will be established as soon as possible.

Continuous growth in the
German photovoltaics market



67 percent rise in sales of solar cells

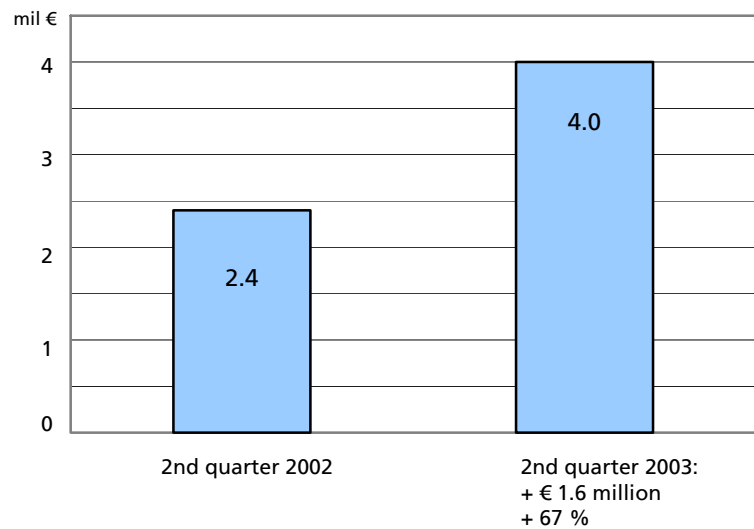
3.1 Solar Cell Division

Due to the positive market development, in particular in Germany, the demand for solar cells rose strongly. In the second quarter, the solar cell division generated sales of Euro 4.0 million (prior year: Euro 2.4 million). This corresponds to a 67 percent increase.

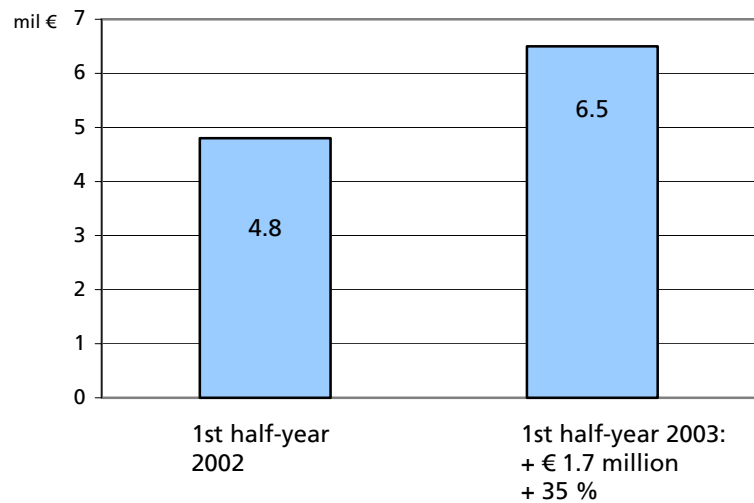
The result of the second quarter was still affected by the further automation of the production line as well as by optimization measures in the production area for a further increase of the efficiency rate. Due to investments, EBIT declined to Euro -0.6 million (prior year: Euro -0.1 million) against the prior year period. However, the result improved markedly against the first three months of the current fiscal year.

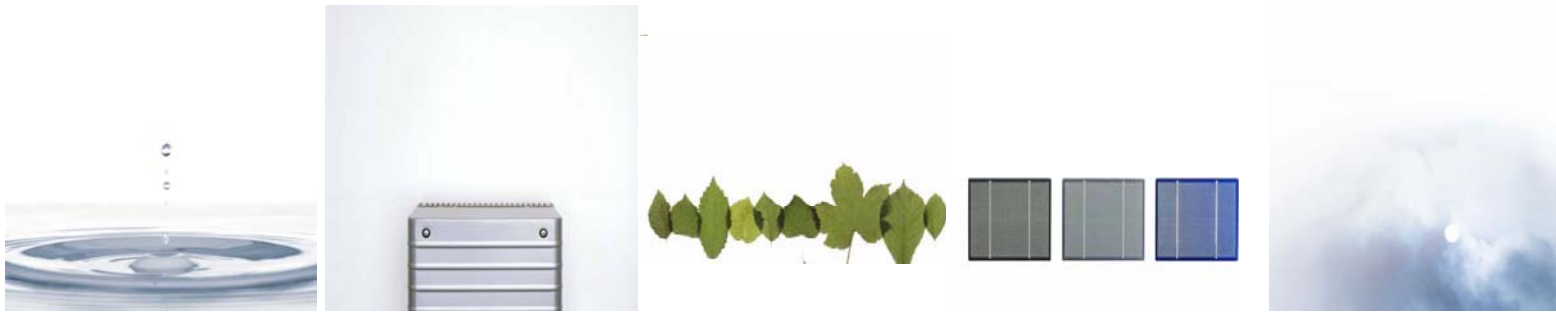
Quarterly comparison

Sales



Half-year comparison





Transparent Solar Cells: The largest individual project so far is being commissioned in The Netherlands – follow-up orders were already received

The share of sales outside Germany in the first half-year 2003 amounted to 12 percent (prior year: 21 percent) whereof approx. 10 percent accounted for EU markets (mainly Italy and Spain) as well as about one percent each for sales in North and South America as well as Asia.

In the area of Transparent Solar Cells, Sunways delivered the largest individual project so far: A solar system with a capacity of 15 KWp was installed at an office building in Eindhoven, The Netherlands, thus underlining the reliability and efficiency of the Transparent Solar Cell. Follow-up orders were already received: In June the first cells were shipped to Korea. In addition, an agreement with a Japanese customer was concluded in June providing for the first shipment of Transparent Solar Cells in July.

Price Development

Following the strong decline in the first quarter 2003, prices in the sales market now stabilized. The price level in the procurement sector is presently also stable. The cost-cutting measures initiated to offset the decline in prices were implemented during the second quarter and will already have an effect from the third quarter on.

Production

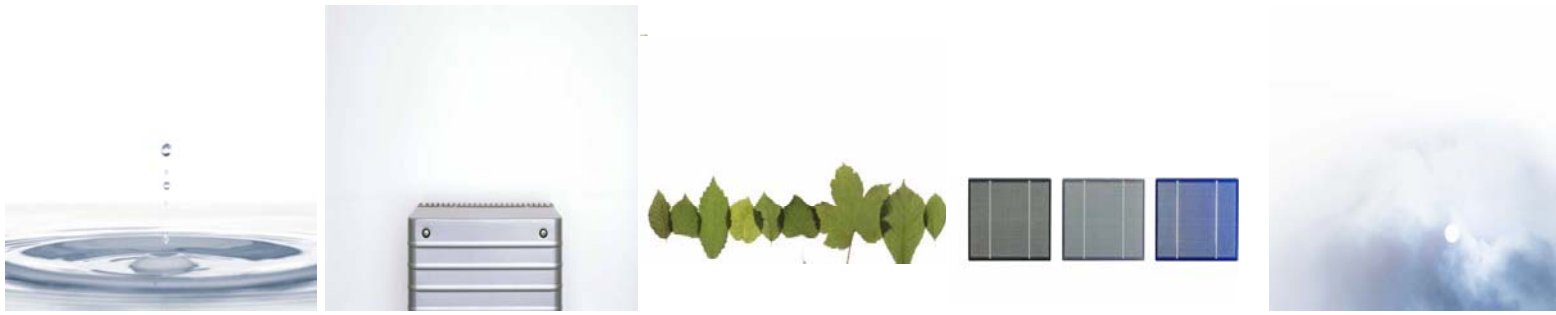
In the first half-year, the production output was approx. 2.5 MW (prior year: 2.5 MW). Mostly in the first quarter, we adjusted the production level to the lower demand. At the same time, inventories of solar cells were reduced substantially. In the second quarter, the further automation of the production line as well as the optimization of efficiency rates resulted in a decrease of the production output.

The average efficiency rate of solar cells made of multi-crystalline silicon at the end of the second quarter was 14.6 percent (with a rising tendency) which was above projections. Currently, we achieve top efficiency rates of up to 15.7 percent.

The establishment of the continuous shift operation at the Constance location was completed in June with the recruitment of additional staff for the production department. Thus the available production capacity is 0.85 MW per month to meet the rising demand in the market.

Technology

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



Further expansion of market share in Germany

Investments

Investments in the Solar Cell division in the first half-year 2003 amounted to Euro 0.6 million and mainly related to investments in the further automation of our production line, capitalized development costs as well as EDP hardware and software.

3.2 Solar Systems and Projects Division

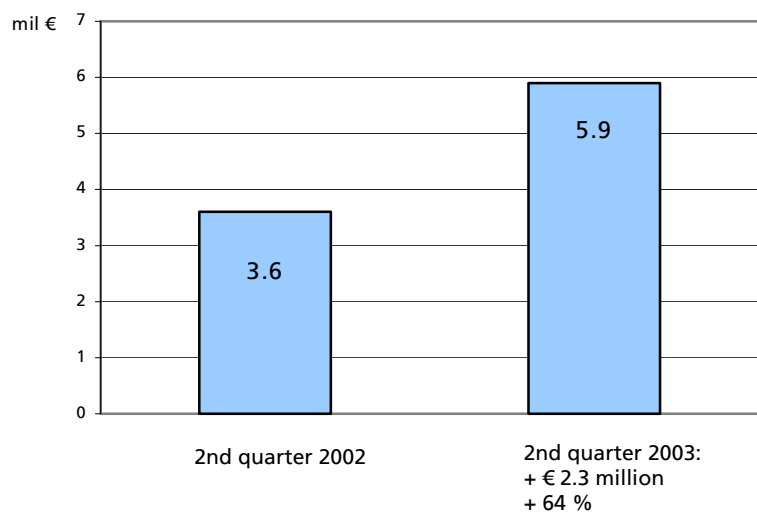
In the Solar Systems and Projects division, the positive development of the first months of the year continued in the second quarter. In terms of projected market volume, we were able to expand our market share in the system business in Germany, the most important market. Sales in the second quarter rose by 64 percent to Euro 5.9 million (prior year: Euro 3.6 million).

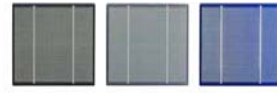
In June, the first devices of the new generation of inverters, the „Solar Inverter NT“, were installed. At our Hungarian partner company, serial production was started according to plan. Large numbers of units will initially be available to our customers from the third quarter. The demand for inverters of the new generation shows a positive development. In the second half-year, the Company expects to generate sales of Euro 2.8 million from this type of device.

The result for the second quarter was again affected by prepaid expenses for the market launch of the new inverter family. As in the prior year, EBIT amounted to Euro – 0.1 million, although the result improved significantly against the first three months of the current year.

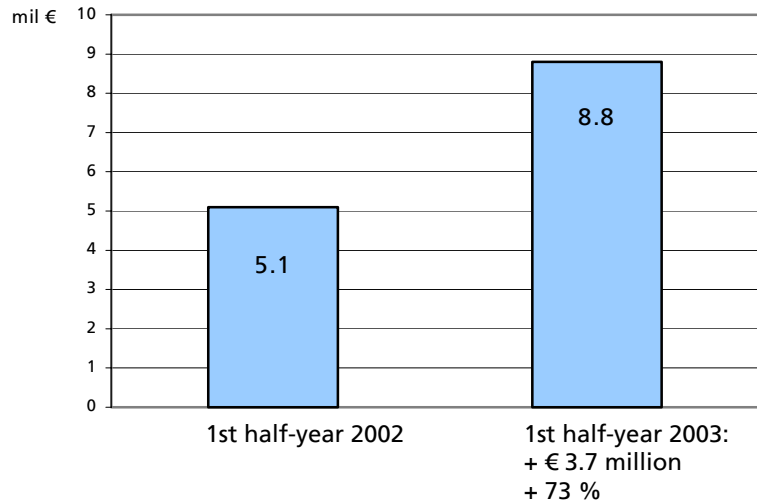
Quarterly comparison

Sales





Half-year comparison



The sales growth in the first half-year amounted to 73 percent and reflected the positive market development as well as the successful distribution efforts of our system house, MHH Solartechnik GmbH, Tübingen.

Sales of the Group's own solar modules offered under the "MHH" brand name continued to rise. The percentage share in total module sales in the first half-year rose to approx. 22 percent (prior year: 20 percent). We anticipate a further rise in sales contributions from this area during the course of the year.

95 percent (prior year: 99 percent) of sales were generated in Germany. International sales of MHH Solartechnik GmbH focused on Austria and Switzerland.

Price Development

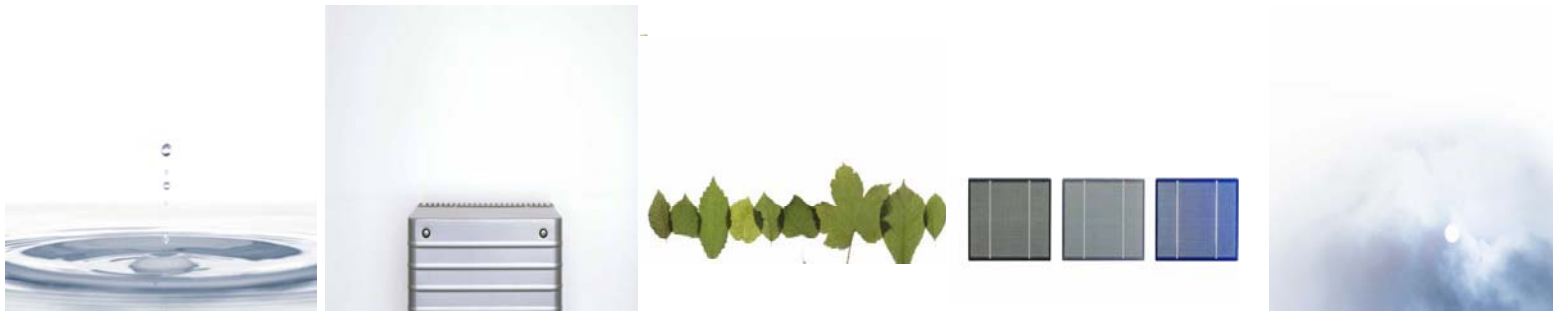
The price development in Germany, the most important sales market, stabilized in the second quarter.

Start of Production of the New Inverter Generation „Solar Inverter NT“

The first pre-serial inverters of the new generation were produced and delivered by our partner company in May. Meanwhile serial production was started. This will certainly enable us to meet the continuously high demand.

Investments

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



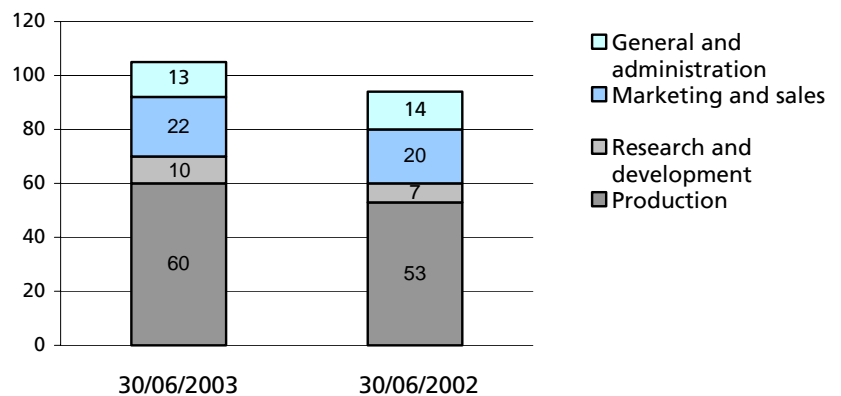
4. Financing

Redemption payments on the bank loans raised for production development were continued as planned. They amounted to Euro 0.4 million in the first half-year.

5. Personnel and Social Matters

As of 30 June 2003, the Sunways Group employed a staff of 105 (as of 31 December 2002: 102).

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



The number of staff increased by 12 percent against the comparable prior year period. Additional staff members were again recruited in the second quarter 2003 in connection with the full development of the continuous shift operation.

On a monthly basis, EBIT reached the break-even point for the first time in June

6. Result

A loss was again incurred in the first half-year 2003. The rise in losses against the comparable prior year period, on the one hand, resulted from the weak demand in the first quarter. On the other hand, prepaid expenses were made in the solar cell division as well as in the area of solar systems and projects. Results in the second quarter improved markedly against the first quarter. In June, earnings before interest and taxes (EBIT) on a monthly basis reached a break-even for the first time.

Earnings before interest, taxes, depreciation and amortization (EBITDA) in the second quarter posted a loss of Euro -0.3 million (prior year: Euro 0.0 million).



EBIT in the second quarter amounted to Euro –0.7 million (prior year: Euro –0.2 million).

The consolidated net loss was Euro –0.5 million (prior year: Euro –0.2 million).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) in the second quarter amounted to Euro –0.05 Euro (prior year: Euro –0.02). As of 30 June 2003, there were no outstanding share options or subscription rights which might have resulted in a dilution of earnings per share.

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).

	2nd Quarter 2003				2nd Quarter 2002			
	Solar cells	Solar systems	Consolidation	Group	Solar cells	Solar systems	Consolidation	Group
	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €
Sales	4.0	5.9	-0.3	9.6	2.4	3.6		6.0
EBITDA	-0.4	-0.1		-0.5	0.1	-0.1		0.0
EBIT	-0.6	-0.1		-0.7	-0.1	-0.1		-0.2

	1 st Half-year 2003				1 st Half-year 2002			
	Solar cells	Solar systems	Consolidation	Group	Solar cells	Solar systems	Consolidation	Group
	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €	Mil. €
Sales	6.5	8.8	-0.3	15.0	4.8	5.1		9.9
EBITDA	-0.9	-0.4		-1.3	0.1	-0.2		-0.1
EBIT	-1.4	-0.5		-1.9	-0.4	-0.3		-0.7

(Rounding differences are possible.)



Sunways AG, Constance
Consolidated Balance Sheet
as of 30 June 2003

	30/06/2003	31/12/2002
	Millions of €	Millions of €
ASSETS		
Current assets		
Liquid funds	0.9	2.6
Marketable securities	0.5	1.5
Trade receivables	3.4	3.9
Inventories	8.6	6.8
Prepayments and accrued income and other current assets	0.8	0.4
Total current assets	14.2	15.2
Tangible fixed assets	6.2	6.4
Intangible assets	1.4	1.4
Financial assets	0.0	0.0
Goodwill	0.3	0.4
Deferred taxes	4.5	3.6
Total assets	26.6	27.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term loans and current portion of long-term loans	0.8	1.0
Trade payables	6.2	4.3
Provisions	0.5	0.5
Income tax payable	0.0	0.0
Other current liabilities	0.2	0.5
Total current liabilities	7.6	6.3
Long-term loans	4.3	4.8
Deferred taxes	0.6	0.5
Minority interests	0.0	0.0
Shareholders' equity		
Subscribed capital	9.5	9.5
Capital reserve	14.2	14.2
Accumulated profit/loss	-9.6	-8.3
Total shareholders' equity	14.1	15.4
Total liabilities and shareholders' equity	26.6	27.0

(Rounding differences are possible.)

Sunways AG, Constance
Consolidated Income Statement for the Fiscal Year
2003

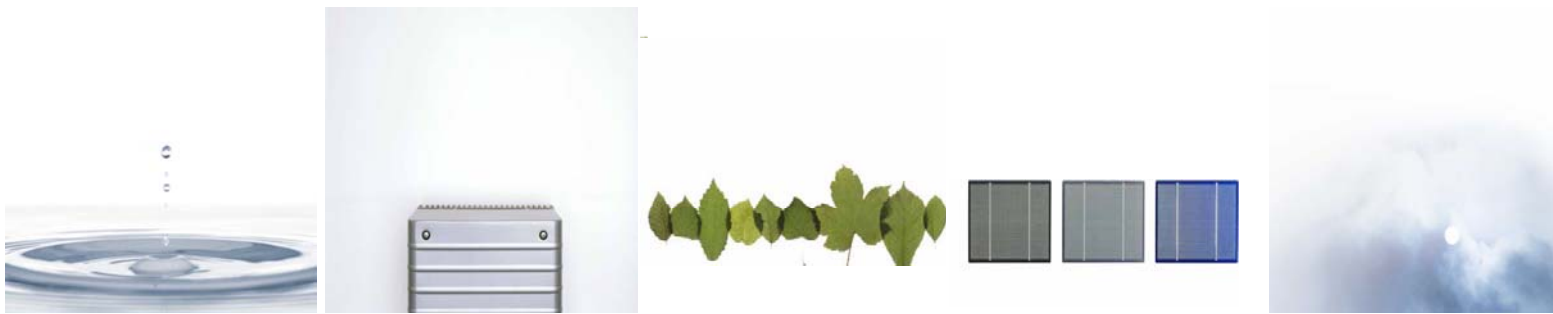
	01/04 – 30/06/2003 Millions of €	01/04 – 30/06/2002 Millions of €	01/01 – 30/06/2003 Millions of €	01/01 – 30/06/2002 Millions of €
Sales	9.6	6.0	15.0	9.9
Changes in inventories of finished and unfinished goods	-1.1	0.5	-1.8	0.9
Gross performance	<u>8.5</u>	<u>6.5</u>	<u>13.2</u>	<u>10.8</u>
Other operating income	0.3	0.3	0.4	0.4
Cost of materials	-7.1	-5.0	-11.1	-8.2
Personnel expenses	-1.1	-0.9	-2.1	-1.8
Depreciation and amortisation	-0.4	-0.3	-0.7	-0.6
Other operating expenses	-0.8	-0.8	-1.5	-1.3
Operating result (EBIT)	<u>-0.7</u>	<u>-0.2</u>	<u>-1.9</u>	<u>-0.7</u>
Interest income/expenses	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.2</u>
Result before taxes and minority interests	<u>-0.8</u>	<u>-0.3</u>	<u>-2.1</u>	<u>-0.9</u>
Taxes on income	0.3	0.1	0.8	0.3
Result before minority interests	<u>-0.5</u>	<u>-0.2</u>	<u>-1.3</u>	<u>-0.6</u>
Minority interests	0.0	0.0	0.0	0.1
Consolidated net income/loss	<u><u>-0.5</u></u>	<u><u>-0.2</u></u>	<u><u>-1.3</u></u>	<u><u>-0.5</u></u>
Earnings per share	-0.05	-0.02	-0.14	-0.05
Average number of shares outstanding	9,514,070	9,200,000	9,514,070	9,200,000

(Rounding differences are possible.)



Sunways AG, Constance
Consolidated Cash-Flow Statement for the Fiscal Year 2003

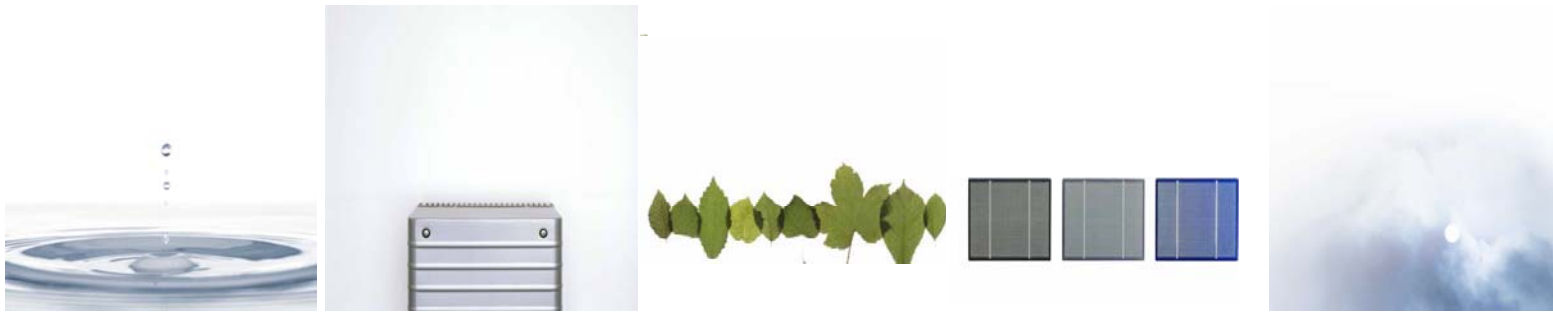
	01/01 – 30/06/2003	01/01. – 30/06/2002
	Millions of €	Millions of €
Operating activities		
Result after taxes and before minority interests	-1.3	-0.6
Adjustments for:		
Depreciation and amortisation	0.7	0.6
Minority interests	0.0	0.1
Operating result before changes in net current assets	<u>-0.6</u>	<u>0.1</u>
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals and deferred tax assets	-0.7	-1.5
Increase (-)/decrease in inventories	-1.8	-1.5
Increase (-)/decrease in trade payables and other short- term provisions, liabilities and deferred tax assets	1.6	-0.6
Cash-flow provided by operating activities	<u>-1.5</u>	<u>-3.5</u>
Investment activities		
Purchase of fixed assets	-0.5	-0.6
Cash used for investment activities	<u>-0.5</u>	<u>-0.6</u>
Financing activities		
Cash provided by/used for (-) long-term loans	-0.5	-0.4
Cash provided by/used for (-) short-term bank loans	-0.2	0.3
Contributions to subscribed capital and capital reserves	0.0	0.0
Additions to minority interests	0.0	-0.1
Cash used for financing activities	<u>-0.7</u>	<u>-0.2</u>
Net increase/decrease of liquid funds	<u>-2.7</u>	<u>-4.3</u>
Cash and cash equivalents at the beginning of the reporting period	<u>4.1</u>	<u>7.8</u>
Cash and cash equivalents at the end of the reporting period	<u>1.4</u>	<u>3.5</u>
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.5	2.3
+ Cash	0.9	1.2
(Rounding differences are possible.)	<u>1.4</u>	<u>3.5</u>



Sunways AG, Constance
Changes in Shareholders' Equity
from 01/01 – 30/06/2003

	Subscribed capital	Reserves	Profit/loss brought forward	Total
	Millions of €	Millions of €	Millions of €	Millions of €
01 January 2002	9.2	14.0	-6.9	16.3
Capital increase against contribution in kind	0.3	0.2		0.5
Revaluation of marketable securities		-0.1		-0.1
Net loss			-1.3	-1.3
31 December 2002	9.5	14.1	-8.2	15.4
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 2002	9.2	14.0	-6.9	16.3
Revaluation of marketable securities		0.0		0.0
Net loss			-0.5	-0.5
30 June 2002	9.2	14.0	-7.4	15.8

(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 2003.

	Shares as of 30/06/2003	Options as of 30/06/2003
Management Board		
Roland Burkhardt	1,880,345	10,000
Bernd Fessler	26,000	10,000
Supervisory Board		
Dr. Roland Bahr, chairman	9,902	
Otto Mayer, deputy chairman	655,146	
Ernst Haug	3,695	
Franz Heim	1,685,654	
Heinz W. Bull	0	
Manfred Schulz	0	

In the period under review, Management Board member Bernd Fessler transferred 30,000 shares to family members.

9. Outlook for the Total Fiscal Year 2003

Following the hesitant market development in the first quarter, there are now indications of a substantial market upturn in the photovoltaics market, in particular in Germany. In the second quarter, sales rose markedly. The early termination of the 100,000 Roofs Programme caused another surge of applications with Kreditanstalt für Wiederaufbau. These applications are expected to have an impact on sales over the next few months. Therefore, we are optimistic that we will be able to achieve the two-digit sales growth we strive for with respect to the total fiscal year.

On a quarterly basis, we expect a positive result (EBIT) for the first time in the third quarter 2003 (EBIT).

The Management Board, in August 2003

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Positive result for
 third quarter 2003 expected