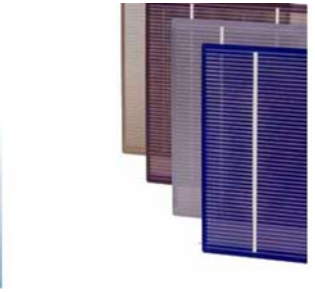
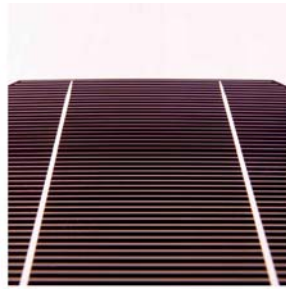


**Sunways AG, Constance**

**3rd Quarter Report / 2003**



## **Sunways AG, Constance**

### **Notes to the Consolidated Interim Financial Statements (IAS) as of 30 September 2003**

#### Highlights

#### **1. Major Events of the Third Quarter 2003**

- Rise in consolidated sales by approx. 71 %
- First positive EBIT on a quarterly basis
- Uncertainty with respect to promotion situation in 2004

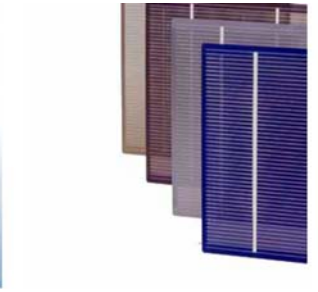
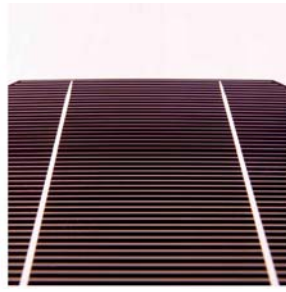
#### **2. Accounting Principles**

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**

Irrespective of the hesitant economic development, the photovoltaics market so far recorded a positive development in the current fiscal year, in particular in Germany. In connection with the 100,000 Roofs Programme, under which interest-subsidized loans of Kreditanstalt für Wiederaufbau were granted to purchasers of photovoltaic systems and which was discontinued in June, photovoltaic systems with a total volume of approx. 150 MWp were approved by the end of September 2003. However, due to the political uncertainty with respect to the further development of public promotion in the area of photovoltaics, it is currently unclear what amount of such applications granted will still have an effect on demand in 2003. 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 % growth against the prior year.

In early November, the Federal Environmental Ministry and the Federal Ministry of Economic Affairs agreed on a government draft for the further development of the Act on Renewable Energies (Erneuerbare Energien Gesetz - EEG). This draft provides for a higher electricity feeding rate with respect to power generated by photovoltaic systems and fed into the public grid to compensate for the discontinued 100,000 Roofs Programme. We deem this draft to be an important step in the right direction to eliminate the existing uncertainty which has resulted in investor hesitation, in particular from the end of the third quarter. From the point of view of the photovoltaics industry, it would seem desirable to implement the amendment as soon as possible to support the further positive development of the solar industry.



### 3.1 Solar Cell Division

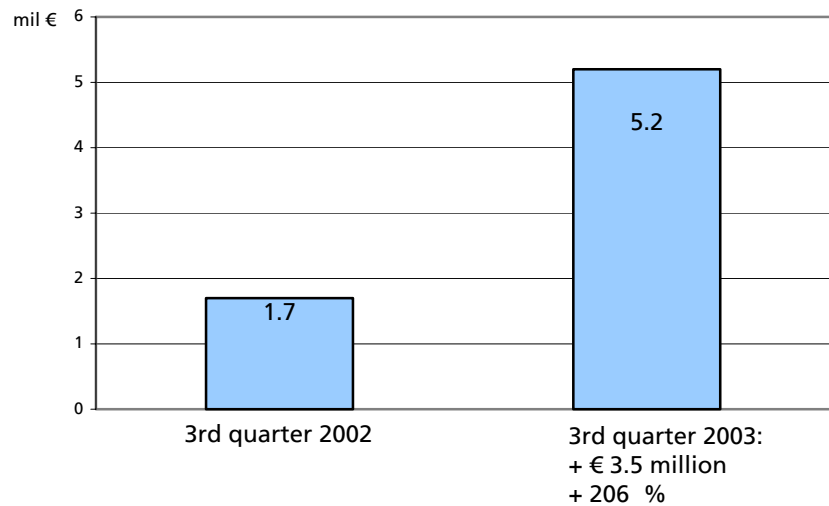
The demand for solar cells continued to be on a high level in the third quarter. The solar cell division generated sales of € 5.2 million in the third quarter (prior year: € 1.7 million). This corresponds to a 206% increase. Sales for the first nine months of the fiscal year improved by approx. 81 % against the prior year.

Earnings before interest and taxes (EBIT) in the third quarter at +€ 0.2 million (prior year: -€ 0.5 million) were positive for the first time. The steps taken in the first half-year for cost-cutting and optimizing the solar cell production already paid off in the third quarter.

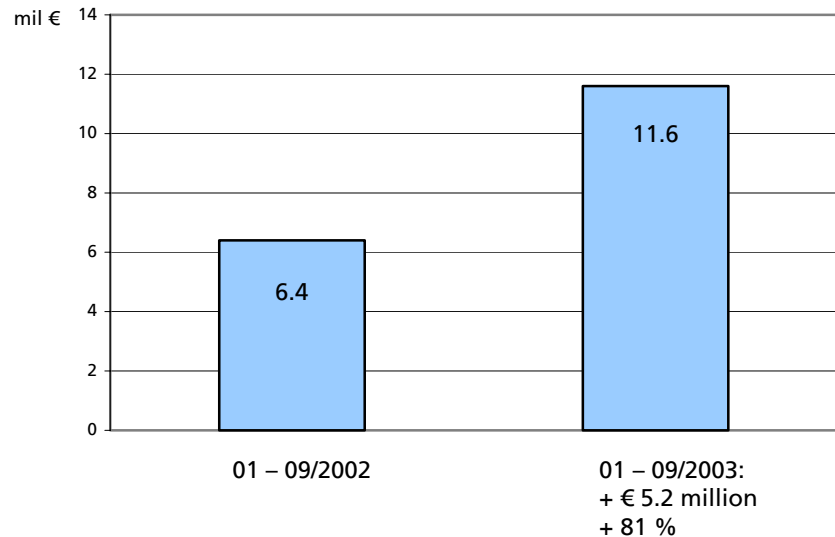
Sales of solar cells rise by 81 %

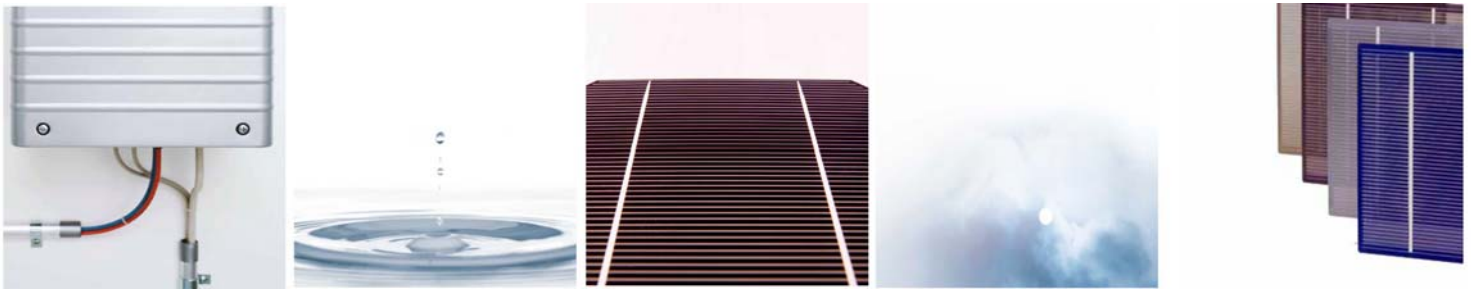
#### Sales

Quarterly comparison



Nine-month comparison





In the first nine months 2003, the share of sales outside Germany amounted to 12 % (prior year: 29 %). Approx. 10 % thereof accounted for markets in the EU (mainly Italy and Spain). Sales in North and South America as well as in Asia amounted to approx. 1 % each. Due to the negative development of the US-dollar exchange rate, sales in Asia declined against the previous year.

Transparent solar cells:  
First reference project in Japan

For the first time we shipped a larger volume of transparent solar cells to Japan in the third quarter. Thus we realized a first reference project for our transparent solar cells in the largest solar cell market in the world.

#### **Price Development**

Following the strong decline in the first quarter 2003, prices in the sales market stabilized in the meantime. 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 already had an effect in the third quarter.

#### **Production**

In the first nine months, the production output was approx. 4.9 MWp. In the third quarter, we produced 2.4 MWp of solar cells. We thus doubled the production output of the Constance location against the first half-year for the first time after the optimizations implemented in the first half-year and the establishment of the continuous shift-operation.

The average efficiency rate of solar cells made of multi-crystalline silicon was approx. 14.6 %. Currently, we achieve top efficiency rates of up to 15.7 %.

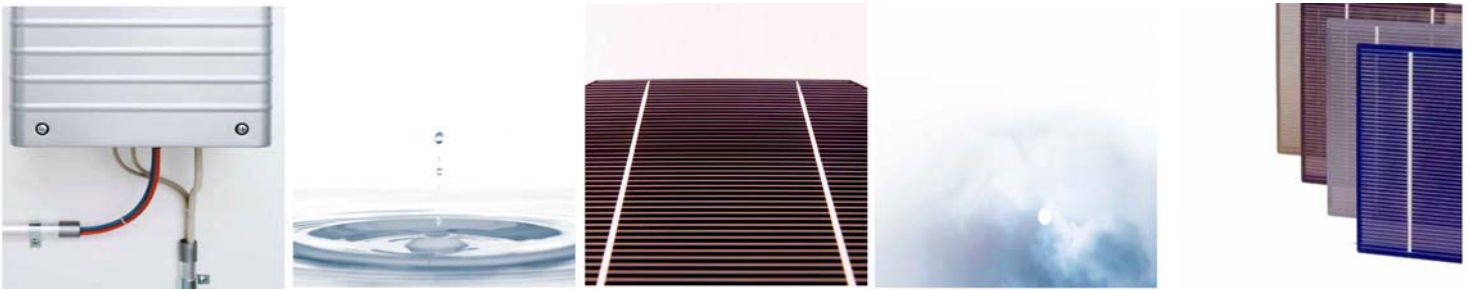
#### **Research and Development**

The focus of research and development activities is on the 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 multi-crystalline solar cells.

In addition, jointly with national and international research institutes, we also continue our large research projects (cost-efficient wafer material, back-contact solar cell).

#### **Investments**

Investments in the solar cell division in the first nine months 2003 amounted to € 0.8 million and mainly related to investments in the further automation of our production unit, capitalized development costs as well as EDP hardware and software.



Further expansion of market share in Germany

### 3.2 Solar Systems and Projects Division

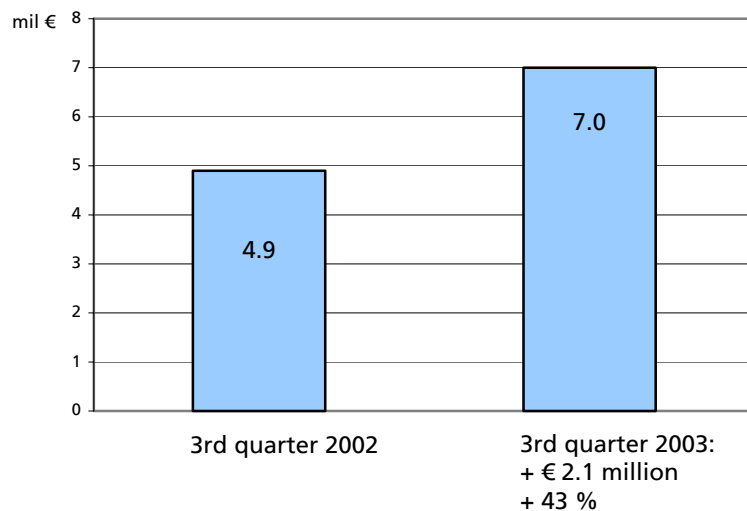
In the solar systems and projects division, the positive development of the first six months of the year continued in the third quarter. In terms of projected market volume, we were able to expand our market share in the system business in Germany, by far the most important market. However, purchasers of solar system presently are hesitant since no binding decision has yet been made with respect to the realignment of public promotion in the photovoltaics area. Our subsidiary MHH Solartechnik GmbH, Tübingen, was also affected by this, especially around the end of the third quarter.

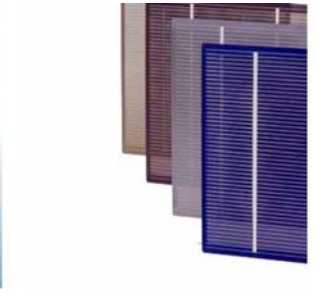
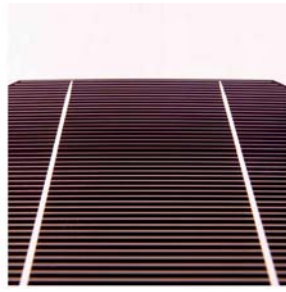
In the third quarter, sales of our new inverter generation „Sunways Solar Inverter NT“ significantly increased. The demand for this new family of devices, which features the highest efficiency rate of inverters worldwide, shows a positive development.

Earnings before interest and taxes (EBIT) in the third quarter reached the breakeven point (prior year: € 0.0 million). The market launch of our new inverter as well as the current uncertainty with respect to the future promotion of photovoltaics continued to have a negative effect here.

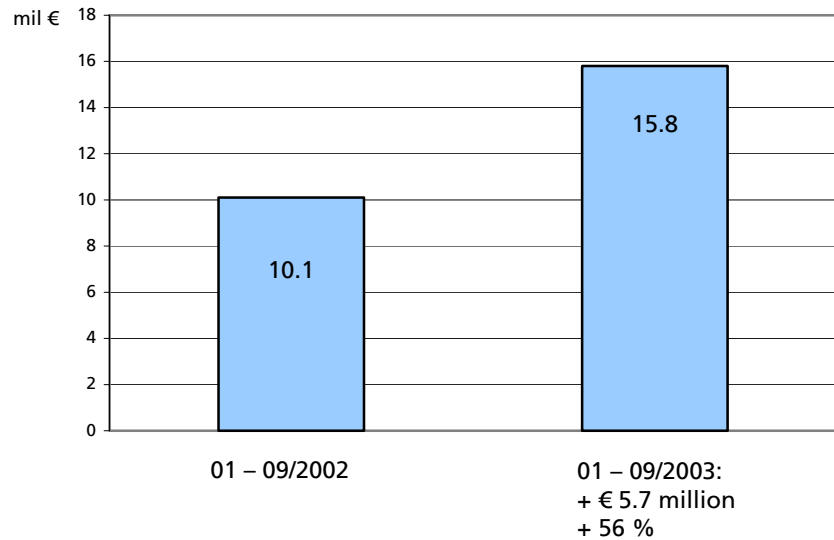
#### Sales

Quarterly comparison





## Nine-month comparison



The sales growth in the first nine months 2003 amounted to approx. 56 % and reflected the positive market development as well as the successful distribution efforts of our MHH system house. The distribution cooperation with Solarcomplex GmbH, Singen, had a positive effect on sales, in particular in the third quarter.

Sales of the Group's own solar modules offered under the „MHH“ brand name continued to show a positive development. We strive to double sales in this area against the prior year. The percentage share of module sales in the first nine months amounted to approx. 25 % (prior year: 20 %).

95% of total sales (prior year: 96 %) were generated in Germany. International sales largely accounted for markets in the EU (mainly Austria) as well as Switzerland.

### Price Development

Prices in Germany, the most important sales market, slightly declined in the third quarter. Necessary price reductions were mostly offset by lower purchase prices.

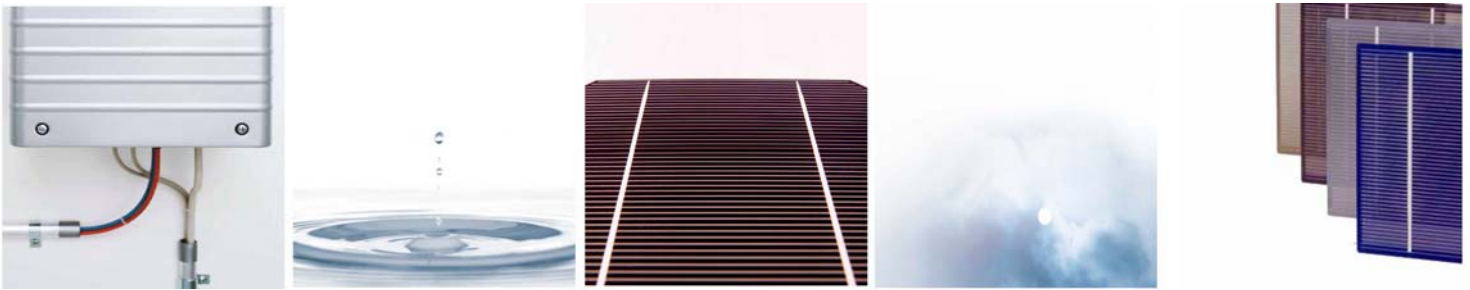
### Start of Production of the New Inverter Generation „Solar Inverter NT“

The serial production of the new inverter generation started in July. The number of items produced continued to rise ever since. Thus sufficient devices are made available to the distribution organization, especially for sales in Germany.

Also a production cooperation with a second German module manufacturer was initiated in the third quarter to meet the high demand for MHH modules.

### Investments

Investments in fixed assets amounted to € 0.2 million and mainly related to capitalized development costs (IAS 38) as well as investments in office and plant equipment.



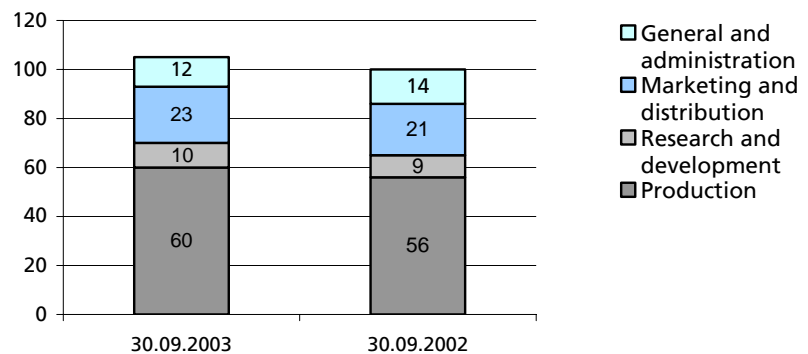
#### 4. Financing

Redemption payments on the bank loans raised for production development were continued as planned. They amounted to € 0.6 million in the first nine months.

#### 5. Personnel and Social Matters

As of 30 September 2003, the Sunways Group employed a staff of 105 (as of 30 September 2002: 100).

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



The number of staff increased by 5 % against the comparable prior year period. There was no change in the number of employees against the second quarter 2003.

#### 6. Result

A loss was again incurred in the first nine months 2003. The higher loss against the comparable prior year period, on the one hand, resulted from the fact that, due to the adjustment of production capacities to the market demand, the production capacity at the Constance location was not fully utilized during the first months of the fiscal year. On the other hand, prepaid expenses were made in the solar cell division as well as in the systems and projects division. A positive result was generated in the third quarter for the first time.

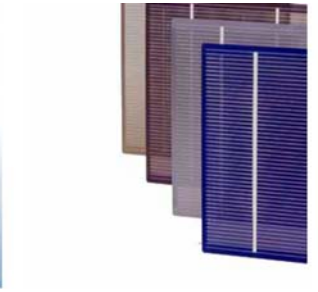
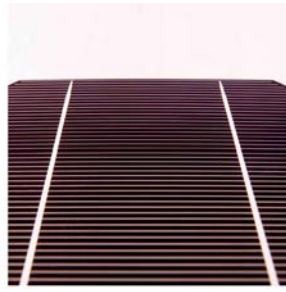
Earnings before interest, taxes, depreciation and amortization (EBITDA) recorded a surplus of € 0.5 million (prior year: -€ 0.2 million) in the third quarter.

First positive EBIT on a quarterly basis

EBIT in the third quarter amounted to € 0.2 million (prior year: € -0.5 million).

Consolidated net income was € 0.1 million (prior year: € -0.4 million).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) in the third quarter amounted to € 0.01 (prior year: -€ 0.04). As of 30 September 2003, there were no outstanding share options or subscription rights which might have resulted in a dilution of earnings per share.



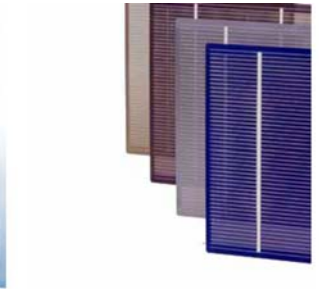
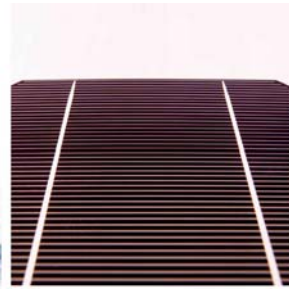
## 7. Segment Reporting

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).

	3rd Quarter 2003				3rd Quarter 2002			
	Solar cells	Solar systems	Consolidation	Group	Solar cells	Solar systems	Consolidation	Group
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	5.2	7.0	-1.0	11.2	1.7	4.9		6.6
EBITDA	0.5	0.0		0.5	-0.2	0.0		-0.2
EBIT	0.2	0.0		0.2	-0.5	0.0		-0.5

	01 – 09/2003				01 – 09/2002			
	Solar cells	Solar systems	Consolidation	Group	Solar cells	Solar systems	Consolidation	Group
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	11.6	15.8	-1.2	26.2	6.4	10.1		16.5
EBITDA	-0.3	-0.4		-0.7	-0.1	-0.2		-0.3
EBIT	-1.2	-0.6		-1.8	-1.0	-0.2		-1.2

(Rounding differences are possible.)



**Sunways AG, Constance**  
**Consolidated Balance Sheet**  
**as of 30 September 2003**

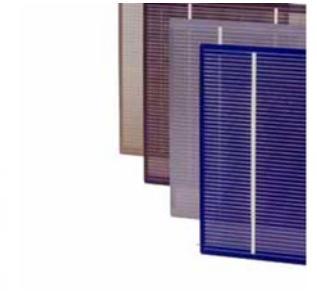
	<b>30/09/2003</b>	<b>31/12/2002</b>
	<b>Millions of €</b>	<b>Millions of €</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Liquid funds	1.8	2.6
Marketable securities	0.3	1.5
Trade receivables	3.1	3.9
Inventories	8.2	6.8
Prepayments and accrued income and other current assets	0.7	0.4
<b>Total current assets</b>	<b>14.2</b>	<b>15.2</b>
Tangible fixed assets	6.1	6.4
Intangible assets	1.6	1.4
Financial assets	0.0	0.0
Goodwill	0.3	0.4
Deferred taxes	4.4	3.6
<b>Total assets</b>	<b>26.6</b>	<b>27.0</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term loans and current portion of long-term loans	1.1	1.0
Trade payables	5.9	4.3
Provisions	0.5	0.5
Income tax payable	0.0	0.0
Other current liabilities	0.3	0.5
<b>Total current liabilities</b>	<b>7.8</b>	<b>6.3</b>
Long-term loans	4.1	4.8
Deferred taxes	0.6	0.5
Minority interests	0.0	0.0
<b>Shareholders' equity</b>		
Subscribed capital	9.5	9.5
Capital reserve	14.2	14.2
Accumulated profit/loss	-9.6	-8.3
<b>Total shareholders' equity</b>	<b>14.2</b>	<b>15.4</b>
<b>Total liabilities and shareholders' equity</b>	<b>26.6</b>	<b>27.0</b>

(Rounding differences are possible.)

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

	01/07 – 30/09/2003 Millions of €	01/07 – 30/09/2002 Millions of €	01/01 – 30/09/2003 Millions of €	01/01 – 30/09/2002 Millions of €
Sales	11.2	6.5	26.2	16.5
Changes in inventories of finished and unfinished goods	<u>-0.8</u>	<u>0.8</u>	<u>-2.6</u>	<u>1.7</u>
<b>Gross performance</b>	<u>10.4</u>	<u>7.3</u>	<u>23.6</u>	<u>18.2</u>
Other operating income	0.3	0.1	0.7	0.4
Cost of materials	-8.2	-6.1	-19.4	-14.3
Personnel expenses	-1.1	-0.9	-3.2	-2.7
Depreciation and amortization	-0.4	-0.3	-1.1	-0.9
Other operating expenses	<u>-0.8</u>	<u>-0.6</u>	<u>-2.4</u>	<u>-1.9</u>
<b>Operating result (EBIT)</b>	<u>0.2</u>	<u>-0.5</u>	<u>-1.8</u>	<u>-1.2</u>
<b>Interest income/expenses</b>	<u>-0.1</u>	<u>-0.1</u>	<u>-0.2</u>	<u>-0.2</u>
<b>Result before taxes and minority interests</b>	<u>0.1</u>	<u>-0.6</u>	<u>-2.0</u>	<u>-1.4</u>
Taxes on income	<u>0.0</u>	<u>0.2</u>	<u>0.7</u>	<u>0.5</u>
<b>Result before minority interests</b>	<u>0.1</u>	<u>-0.4</u>	<u>-1.3</u>	<u>-0.9</u>
Minority interests	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>
<b>Consolidated net income/loss</b>	<u><u>0.1</u></u>	<u><u>-0.3</u></u>	<u><u>-1.3</u></u>	<u><u>-0.9</u></u>
Earnings per share	0.01	-0.03	-0.14	-0.09
Average number of shares outstanding	9,514,070	9,200,000	9,514,070	9,200,000

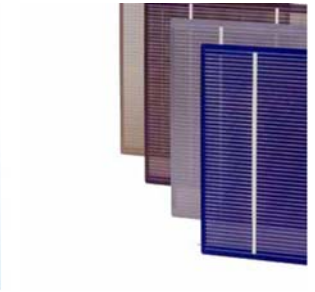
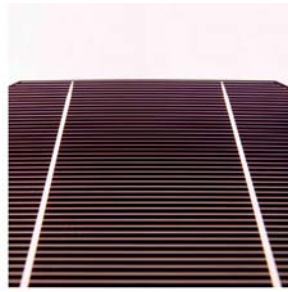
(Rounding differences are possible.)



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

	<b>01/01 – 30/09/2003</b>	<b>1/01 – 30/09/2002</b>
	<b>Millions of €</b>	<b>Millions of €</b>
<b>Operating activities</b>		
Result after taxes	-1.3	-0.9
Adjustments for:		
Depreciation and amortization	1.1	0.9
Minority interests	0.0	0.1
<b>Operating result before changes in net current assets</b>	<b>-0.2</b>	<b>0.1</b>
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals and deferred tax assets	-0.4	-0.1
Increase (-)/decrease in inventories	-1.4	-2.8
Increase (-)/decrease in trade payables and other short-term provisions, liabilities and deferred tax liabilities	1.5	0.1
<b>Cash used for operating activities</b>	<b>-0.5</b>	<b>-2.7</b>
<b>Investment activities</b>		
Purchase of fixed assets	-0.9	-0.8
<b>Cash used for investment activities</b>	<b>-0.9</b>	<b>-0.8</b>
<b>Financing activities</b>		
Cash provided by/used for (-) long-term loans	-0.7	-0.7
Cash provided by/used for (-) short-term bank loans	0.1	0.1
Contributions to subscribed capital and capital reserves	0.0	-0.2
Additions to minority interests	0.0	-0.1
<b>Cash used for financing activities</b>	<b>-0.6</b>	<b>-0.9</b>
<b>Net increase/decrease of liquid funds</b>	<b>-2.0</b>	<b>-4.4</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>4.1</b>	<b>7.8</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>2.1</b>	<b>3.2</b>
<b>Composition of liquid funds at the end of the reporting period</b>		
Marketable securities	0.3	2.2
+ Cash	1.8	1.0
	<b>2.1</b>	<b>3.2</b>

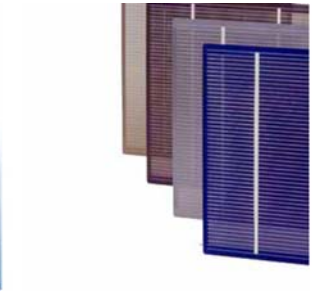
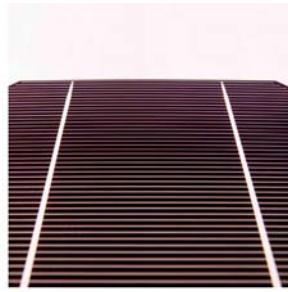
(Rounding differences are possible.)



**Sunways AG, Constance**  
**Changes in Shareholders' Equity**  
**from 01/01 – 30/09/2003**

	<b>Subscribed capital</b>	<b>Reserves</b>	<b>Profit / loss brought forward</b>	<b>Total</b>
	<b>Millions of €</b>	<b>Millions of €</b>	<b>Millions of €</b>	<b>Millions of €</b>
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 September 2003	9.5	14.2	-9.5	14.2
01 January 2002	9.2	14.0	-6.9	16.3
Revaluation of marketable securities		-0.1		-0.1
Net loss			-0.9	-0.9
30 September 2002	9.2	13.9	-7.8	15.3

(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 2003.

	Shares as of 30/09/2003	Options as of 30/09/2003
<b>Management Board</b>		
Roland Burkhardt	1,775,655	10,000
Bernd Fessler	26,000	10,000
<b>Supervisory Board</b>		
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	

## 9. Outlook for the Total Fiscal Year 2003

A further significant increase in sales was achieved in the third quarter 2003. The sales of the previous fiscal year (€ 25.8 million) were already surpassed after three quarters. A positive result (EBIT) was for the first time generated in the third quarter. The Company expects this positive trend to continue in the fourth quarter.

As a result of the continuous political uncertainty with respect to the amount of the future promotion of photovoltaic systems and the effective date of the replacement for the 100,000 Roofs Programme, substantial insecurity is currently felt among potential customers. Despite the record numbers of applications approved under the 100,000 Roofs Programme, investment decisions are deferred. Due to this uncertainty, we anticipate growth in the fourth quarter to weaken, in particular in the systems business. Therefore, the budgeted increase in the result is unlikely to be realized as calculated in the fourth quarter. On the basis of the existing government draft, further significant growth is anticipated for 2004.

The Management Board, in November 2003

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Investor Relations  
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