

# QUARTERLY REPORT

# Q III / 2007

July – September 2007

***sunways***  
Photovoltaic Technology

## Sunways AG, Constance

### Management Report as of 30 September 2007

Highlights  
3rd quarter 2007

#### Major events in the third quarter

- 57 percent rise in sales against the prior year to 61.7 million Euro; 355 percent rise in EBIT to 2.0 million Euro
- Non-recurrent increase in tax burden due to reversal of deferred taxes in the context of the imminent corporate tax reform affects net income
- Raw materials supply secured in the long term and in an economically efficient manner under the cooperation with LDK Solar

**1. Business operations.** The marked rise in demand in the photovoltaics industry in the second quarter 2007 remained undiminished during the third quarter. Sunways was able to again increase its sales against the prior quarter.

The international expansion of Sunways AG continued in the third quarter 2007. The percentage of sales generated outside Germany rose from 11.7 percent in the first nine months 2006 to 14.2 percent for the current fiscal year to date and thus markedly exceeds the 20 percent threshold in the solar cell segment.

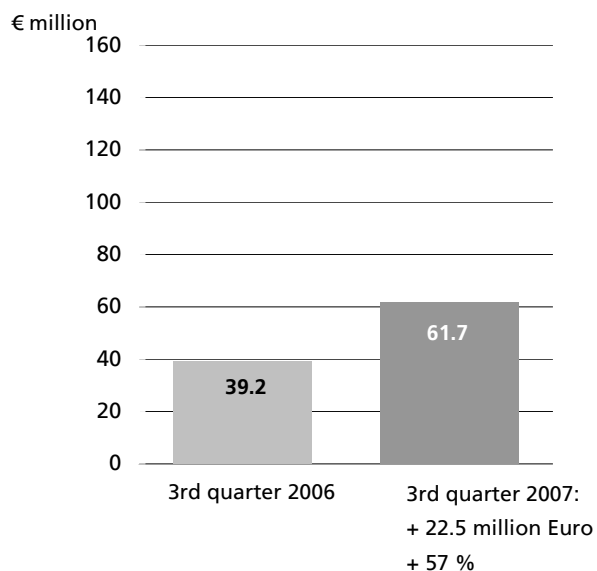
In the third quarter 2007, consolidated sales rose by 57 percent against the previous year to 61.7 million Euro (prior year: 39.2 million Euro). EBIT generated in the reporting period grew by 355 percent to +2.0 million Euro (prior year: +0.4 million Euro) and continued to be affected by high costs of raw materials. EBITDA in the third quarter amounted to +3.1 million Euro (prior year: +1.6 million Euro). In all, the business development from July to September resulted in consolidated net income of +0.2 million Euro (prior year: +1.9 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) amounted to 0.08 Euro (prior year: 0.21 Euro) at the end of the third quarter. Diluted earnings per share correspond to undiluted earnings.

No significant opportunities and risks arose during the reporting period other than those described in the 2006 annual report.

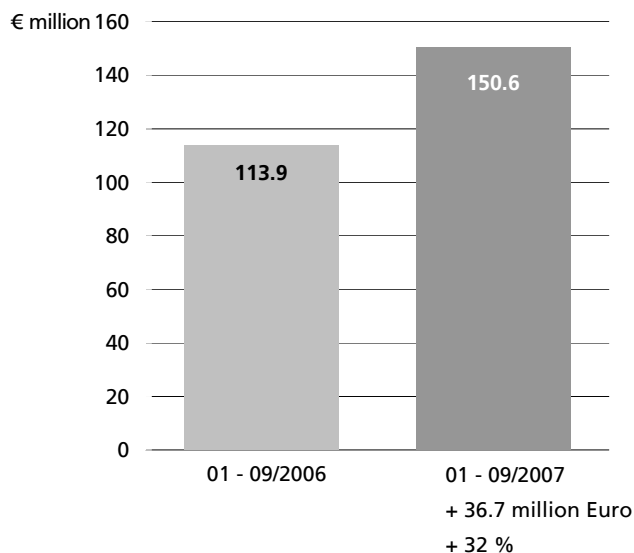
**Quarterly comparison**

57 percent rise in sales



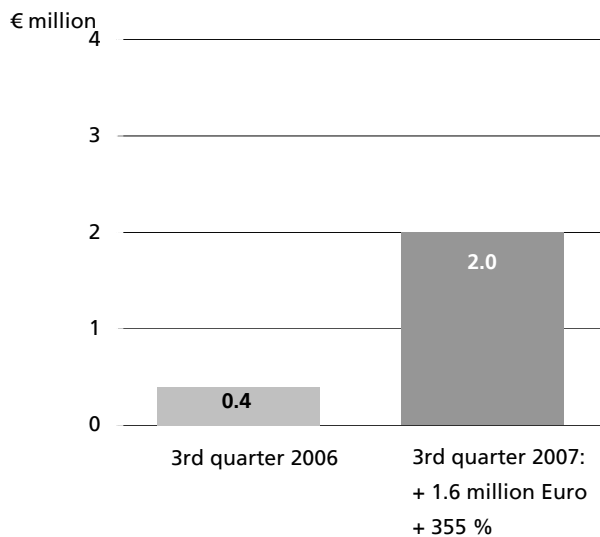
**Nine-month comparison**

32 percent rise in sales



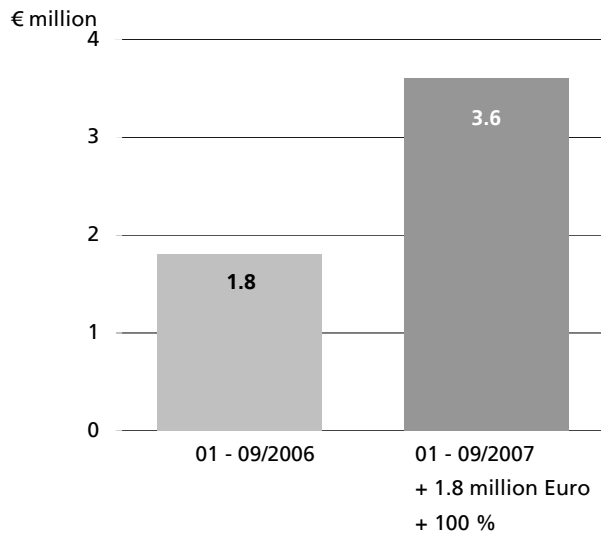
**Quarterly comparison**

355 percent rise in EBIT



**Nine-month comparison**

100 percent rise in EBIT



## 2. 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 and projects (development, production and distribution of inverters and project management for solar systems, including Sunways Solar Modules).

A change in the accounting policy of Sunways AG should be noted. As from the third quarter 2007, the Company introduced an optimized categorization of materials and expense items within the segments. Thus the meaningfulness of the segment reporting and the internal product income statement were further improved. To ensure the continuity of period-on-period comparisons, the figures for the prior year quarter as well as for the current quarter in the table below reflect this reclassification.

	3rd quarter 2007				3rd quarter 2006			
	Solar cells	Solar systems	Conso- lidation	Total	Solar cells	Solar systems	Conso- lidation	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	23.1	38.6	0.0	61.7	16.7	22.6	0.0	39.2
EBITDA	+2.5	+0.6		+3.1	+1.1	+0.5		+1.6
Depreciation and amortization	-0.9	-0.2		-1.1	-1.1	-0.1		-1.2
EBIT	+1.6	+0.4		+2.0	0.0	+0.4		+0.4

	01 – 09/2007				01 – 09/2006			
	Solar cells	Solar systems	Conso- lidation	Total	Solar cells	Solar systems	Conso- lidation	Total
	€ million	€ million	€ million	€ million	€ million	€ million	€ million	€ million
Sales	61.8	88.8	0.0	150.6	51.6	62.3	0.0	113.9
EBITDA	+5.7	+1.0		+6.7	+2.6	+2.6		+5.2
Depreciation and amortization	-2.7	-0.5		-3.1	-3.0	-0.4		-3.5
EBIT	+3.0	+0.5		+3.6	-0.5	+2.2		+1.7

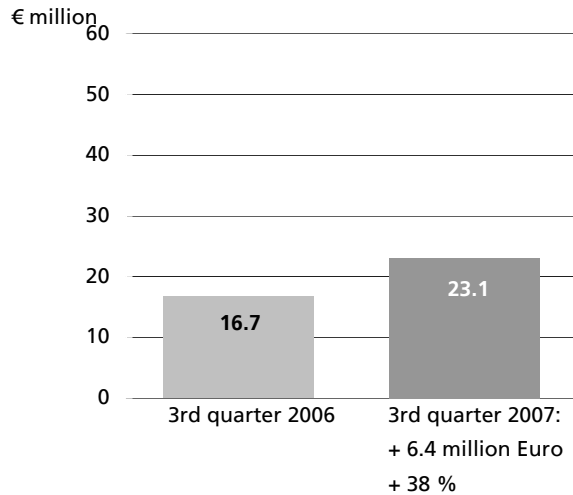
Markedly improved results thanks to efficiency improvements and stable sales prices

**Solar cells.** In the solar cell segment, sales rose by 38 percent to 23.1 million Euro (prior year: 16.7 million Euro) in the third quarter. Approx. 22 percent of solar cell sales were generated abroad (prior year: 19 percent); in a nine-month comparison between the fiscal years 2006 and 2007, the international share in the cell segment rose from 21 percent to 23 percent.

The significant improvement of EBIT, against the relevant prior year quarter as well as the nine-month period, was due to largely stable sales prices for solar cells as well as economies of scale realized. Compared to the first nine months 2006, the 2007 EBIT in the cell segment increased markedly from -0.5 million Euro to +3.0 million Euro.

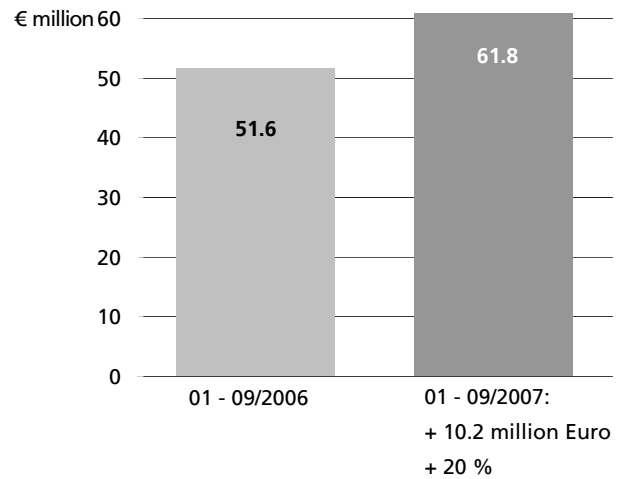
### Quarterly comparison

38 percent rise in sales



### Nine-month comparison

20 percent rise in sales



The raw materials supply for the solar cell production in the last quarter of the fiscal year 2007 is secured at a high level. The focus is again on the supply of high-quality monocrystalline wafers. Due to the continuously strong demand for solar cells, the spot market prices for wafers remain at their previous high levels. So far, there is no indication of any alleviation.

The current nominal production capacity of Sunways AG is 46 megawatts (Sunways Production GmbH: 30 megawatts; Sunways AG: 16 megawatts). Compared to the first nine months 2006, Sunways AG was able to increase its production output by 24 percent from 21.6 megawatts to 26.8 megawatts, taking into account the various wafer formats. Correspondingly, the production plants in Constance and Arnstadt were utilized to capacity in the third quarter 2007. The high production output was sold completely.

In the third quarter 2007, investments amounted to 0.7 million Euro.

Raw materials supply  
secured in the long term

In September 2007, Sunways AG entered into a bilateral agreement with the Chinese wafer manufacturer LDK Solar: Sunways will sell its Siemens reactors, together with all related components, to LDK Solar. The subject matter of the agreement also includes extensive services with respect to the installation and commissioning of a polysilicon production plant the capacity of which is scheduled to be expanded to 1,000 metric tons during 2008. LDK Solar will supply to Sunways AG multicrystalline silicon wafers with a total volume corresponding to about 1,000 megawatts from 2008 onwards over a period of 10 years. Via this partnership with LDK Solar, one of the world's leading wafer manufacturers, Sunways ensures a reliable supply of raw materials in the long term in an economically favorable manner. Sunways was able to enter into this contract on attractive terms. The prepayments to be made for the silicon wafers vary within a framework specifically agreed upon for the entire project volume. The parties have agreed to treat the detailed contract terms confidentially.

Again strong growth in the inverter business; price pressures in the module segment

**Solar systems and projects.** In the solar system segment, the strong increase in demand resulted in a significant rise in sales in the third quarter 2007. The Sunways Solar Inverters, with sales figures that in the past quarter increased again over the previous three-month period, made a major contribution to the positive development in this segment. The Sunways Solar Inverter NT 10000 introduced last year accounted for almost 40 percent of all Sunways inverters sold as of the end of the reporting period. The Sunways Solar Inverter NT 10000 also is the preferred model in the Spanish market.

In the third quarter 2007, sales rose by about 71 percent against the previous year to 38.6 million Euro (prior year: 22.6 million Euro) thanks to strong demand from Germany and abroad, with six percent of sales being generated abroad (prior year: three percent). When comparing the first nine months 2006 and 2007, the international percentage in this business segment doubled to currently eight percent.

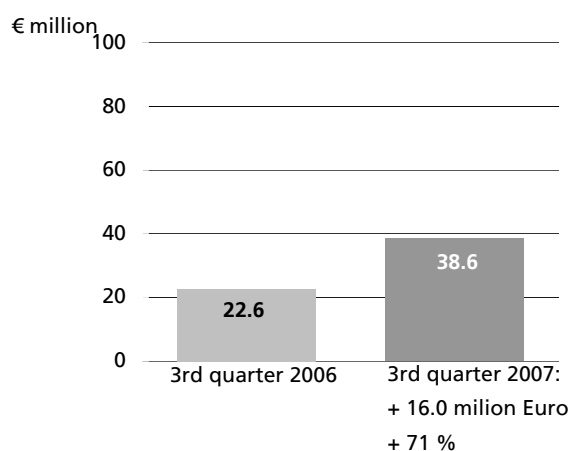
Overall, prices for modules and inverters in the first nine months 2007 declined by approx. 8.5 percent on the average against the prior year period. Due to increased sales of the NT 10000 inverter, the good EBIT of the 2600 reporting period of 0.4 million Euro was reached again. The further rise in export sales partially offset the price pressures due to slightly higher price levels abroad.

Thanks to the favorable demand in the third quarter 2007, inventories in the solar systems segment were again reduced substantially against the prior quarter.

In the third quarter 2007, investments amounted to 0.2 million Euro.

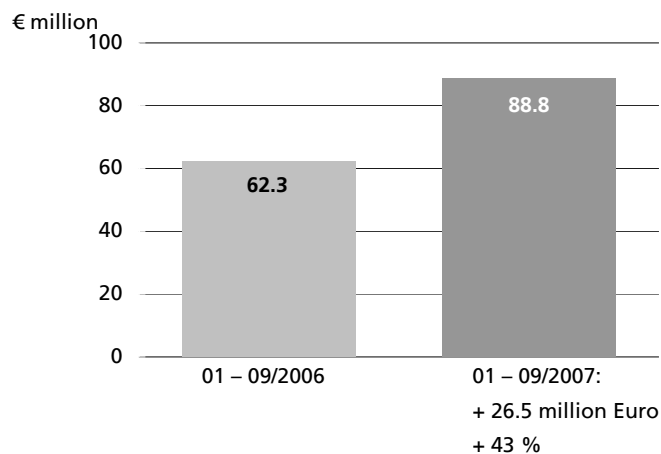
#### Quarterly comparison

71 percent rise in sales



#### Nine-month comparison

43 percent rise in sales



### 3. Technology and products

**Solar cells.** Against the background of the still tense raw materials situation, we continue to focus our research and development activities in the technology area on a minimization of the amount of raw materials used by processing the thinnest possible wafers and increasing the efficiency rate of solar cells. The best possible adjustment of the components of a solar system also contributes towards maximizing the yields of system operators. Therefore, we continuously optimize the coordination of Sunways modules and Sunways inverters so that our customers benefit in the long term.

The efficiency top rate of our monocrystalline solar cells is 17 percent. Our texturized multicrystalline solar cells have an average efficiency rate of more than 15 percent, with top rates reaching even more than 16 percent.

After the end of the reporting period, Sunways AG entered into a research and development cooperation arrangement with Solarvalue AG on 5 November 2007. The objective is to produce high-quality solar cells based on metallurgical silicon in the near future. Solarvalue AG plans to produce cost-effective solar silicon already in the first half-year 2008 at its silicon production plant in Slovenia with a capacity of several thousand metric tons. Upon successful implementation of the development cooperation, Solarvalue and Sunways intend to expand the cooperation and to enter into a solar silicon supply contract. This will enable Sunways AG to access further cost-effective raw materials.

Sunways inverters receive International Baden-Württemberg Design Award 2007

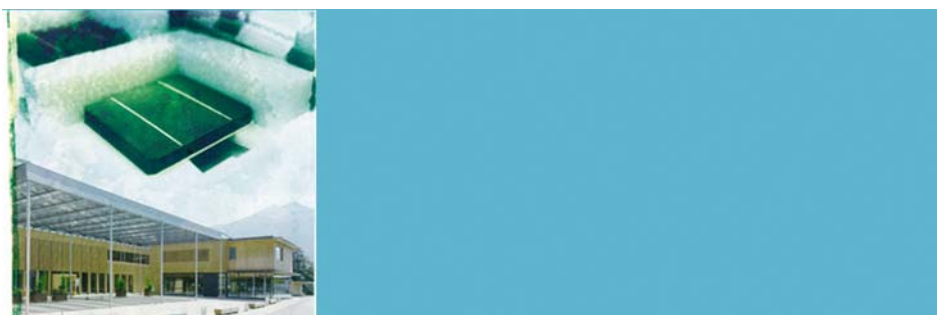
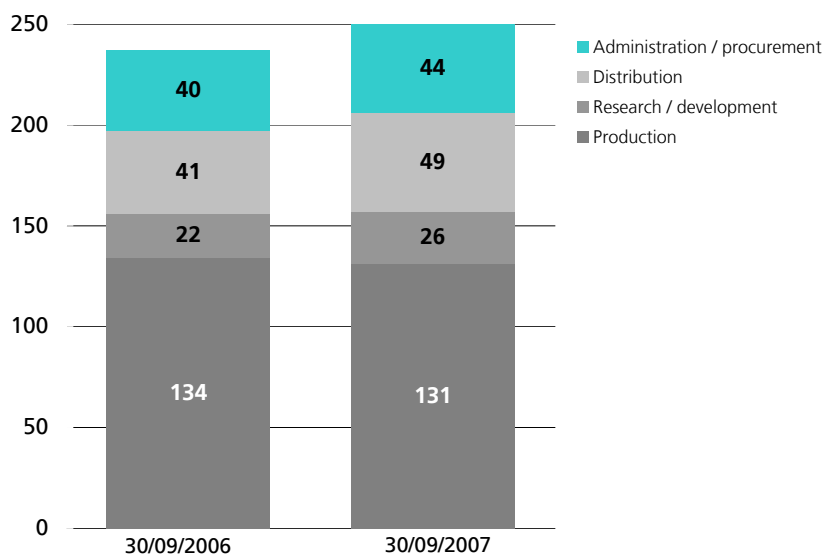
**Solar systems and projects.** Our Solar Inverter AT was presented with the "Focus in Silver" of the International Design Award Baden-Württemberg 2007 by the Design Center Stuttgart. Thus the jury awarded a product that holds a top position in the building technology category thanks to its extraordinary design quality. The evaluation criteria also included innovative content, ergonomics and user-friendliness.

Established product presentations continued

In September 2007, we offered cost-free practice-oriented seminars for dealers and installers of photovoltaic systems in various cities in Germany and Switzerland. Almost 200 dealers and installers from Germany and Switzerland took the opportunity to inform themselves about the products and novelties of Sunways. Due to the great success, the seminar series will be continued in 2008.

#### 4. Personnel and social matters

As of 30 September 2007, Sunways AG employed a workforce of 250 (2006: 237) at group level. As of 31 March 2007, the employees were reclassified. This reclassification ensures an accurate period-on-period comparison of the numbers of employees, also with respect to prior quarters. The break-down of employees by functions was as follows:



## 5. Shareholdings of members of executive bodies and directors' dealings

The following table shows the number of Sunways shares held by the members of the Management Board and Supervisory Board as of 30 September 2007:

	Shares as of 30/09/2007
<b>Management Board</b>	
Roland Burkhardt, chairman	1,770,345
Ralph Kienzler	1,000
Michael Wilhelm	2,000
<b>Supervisory Board</b>	
Prof. Heinz W. Bull, chairman until July 2007	0
Otto Mayer, chairman since 3 August 2007	744,000
Dr. Roland R. Bahr	5,902
Thomas Nordmann	0
Frank Wehking	0
Dr. Christian Bosse, since 20 August 2007	0

As of 28 September 2007, 11,326,338 Sunways shares were outstanding.

In July 2007, Professor Heinz W. Bull, chairman of the Supervisory Board, died. On 3 August 2007, the Supervisory Board of Sunways AG appointed its former deputy chairman, Otto Mayer, as the new chairman of the Supervisory Board. On 20 August 2007, Dr. Christian Bosse was appointed a member of the Supervisory Board.

Pursuant to § 15a WpHG, an issuer's executives and their closely related parties have to inform the issuer and the Federal Financial Supervisory Authority (BaFin) within five working days of any dealings for their own account in the issuer's shares or any financial instruments relating thereto if the total volume of such dealings exceeds the amount of 5,000 Euro by the end of the calendar year. The relevant notifications have to be published by the company without delay for a duration of one month.

The following directors' dealings were reported to us in the period under review:

Date	Name	Transaction
24 September 2007	Michael Wilhelm (Management Board member); Karben	Purchase; 2.000 shares at 8.74 Euro per share (total volume: 17,480 Euro); stock exchange: Frankfurt am Main

## 6. Outlook for the entire fiscal year 2007

Continuously strong demand

Our market assessments for the European markets were again confirmed in the third quarter 2007: the German market continued to experience undiminished strong demand. The same applies to the Spanish market: Spanish market participants have now gained certainty about the long-term development of government subsidies; however, they will need to have installed and connected to the grid a total volume of 400 megawatts by the end of 2008. Therefore, we anticipate stable demand from Spain during the winter months. The Italian market will only develop next year; we do not expect any significant sales in the current fiscal year. The same applies to the Greek market: we expect demand in this region to accelerate substantially next year.

Positive business development 2007

Based on good quarterly results and as it is convinced of the positive market development, the management of Sunways AG expects an overall strong growth to be achieved in 2007. All business divisions will participate in such growth. Operating results will also improve significantly against 2006. The only negative aspect should be the development of net income: in connection with the corporate tax reform, deferred taxes of about 1.1 million Euro had to be reversed on a non-recurrent basis.

The raw materials supply of Sunways AG for the fourth quarter 2007 has been secured at a high level. We anticipate that the further wafer supply can be secured at a similar level for the first quarter 2008. In the opinion of Sunways AG, the shortage of the raw material polysilicon will continue and ensure steadily high cost prices for wafers in the future.

## 7. Representation by legal representatives

We represent that, to best of our knowledge, this consolidated interim report in accordance with the applied principles of proper consolidated interim reporting accurately presents the group's asset, financial and earnings situation, the group management report and business development, including the result of operations and financial position of the group, so as to give a true and fair view and to describe the major opportunities and risks of the group's expected development during the remainder of the fiscal year.

The Management Board of Sunways AG  
13 November 2007

## 8. Financial calendar 2007

13 November 2007                      Presentation, Deutsches Eigenkapitalforum, Frankfurt

23 November 2007                     Analysts' conference, Forum Solarpraxis, Berlin

This quarterly report is also available in the German original. In addition, you may find our annual and quarterly reports as well as current information on the Internet ([www.sunways.de](http://www.sunways.de)).

Sunways AG  
Investor Relations  
Macairestraße 3 - 5  
D - 78467 Konstanz  
Telephone +49 7531 99677480  
Fax +49 7531 99677548  
[ir@sunways.de](mailto:ir@sunways.de)  
[www.sunways.de](http://www.sunways.de)



**Sunways AG, Constance**  
**Consolidated Interim Financial Statements (IFRS)**  
**as of 30 September 2007**

## Sunways AG, Constance Consolidated Balance Sheet as of 30 September 2007

	Note	30/09/2007	31/12/2006
		€ million	€ million
<b>Assets</b>			
<b>Current assets</b>			
Liquid funds	B 1	16.3	3.8
Trade receivables	B 2	11.1	8.0
Inventories	B 3	25.5	18.5
Prepayments and accrued income and other current assets	B 2	1.7	4.9
<b>Total current assets</b>		<b>54.6</b>	<b>35.3</b>
Tangible fixed assets	B 4	27.3	31.1
Intangible assets	B 5	2.3	2.0
Financial assets		0.1	0.1
Goodwill		0.2	0.2
Other long-term assets	B 6	3.5	1.0
Deferred taxes		3.2	5.6
<b>Total assets</b>		<b>91.2</b>	<b>75.2</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Short-term loans and current portion of long-term loans	B 7	1.0	0.0
Trade payables	B 7	13.5	11.4
Prepayments received	B 7	1.3	0.0
Provisions	B 7	2.6	2.4
Other current liabilities	B 7	3.7	1.1
<b>Total current liabilities</b>		<b>22.0</b>	<b>14.9</b>
<b>Long-term liabilities</b>			
Bonds		6.6	6.9
Long-term loans	B 8	1.3	2.7
Prepayments received	B 8	10.0	0.0
Deferred taxes		0.6	0.7
<b>Total long-term liabilities</b>		<b>18.6</b>	<b>10.3</b>
Deferred investment grants	B 9	8.9	9.7
<b>Shareholders' equity</b>			
Subscribed capital	B 10	11.3	11.3
Capital reserve	B 10	35.7	35.3
Accumulated profit/loss		-5.4	-6.3
<b>Total shareholders' equity</b>		<b>41.6</b>	<b>40.3</b>
<b>Total liabilities and shareholders' equity</b>		<b>91.2</b>	<b>75.2</b>

(Possible rounding differences)

## Sunways AG, Constance Consolidated Income Statement for the Period from 01/01 – 30/09/2007

	Note	01/07 – 30/09/2007	01/07 – 30/09/2006	01/01 – 30/09/2007	01/01 – 30/09/2006
		€ million	€ million	€ million	€ million
Sales	C 1	61.7	39.2	150.6	113.9
Changes in inventories of finished and unfinished goods		0.2	1.1	3.1	1.5
<b>Gross performance</b>		<b>61.9</b>	<b>40.3</b>	<b>153.7</b>	<b>115.4</b>
Other operating income	C 2	0.3	0.4	1.2	1.4
Cost of materials		-53.7	-33.9	-132.4	-96.4
Personnel expenses		-2.6	-2.5	-7.7	-7.3
Depreciation and amortization	C 3	-1.1	-1.2	-3.2	-3.5
Other operating expenses	C 4	-2.8	-2.7	-8.1	-7.6
<b>Operating result (EBIT)</b>		<b>+2.0</b>	<b>+0.5</b>	<b>+3.6</b>	<b>+1.8</b>
Interest income/expenses	C 5	-0.1	-0.4	-0.4	-1.0
<b>Result before taxes</b>		<b>2.0</b>	<b>0.1</b>	<b>3.2</b>	<b>0.8</b>
Taxes on income	C 6	-1.8	1.7	-2.3	1.4
<b>Result before minority interests</b>		<b>0.2</b>	<b>1.8</b>	<b>0.9</b>	<b>2.3</b>
<b>Consolidated net income/loss</b>	C7	<b>0.2</b>	<b>1.9</b>	<b>0.9</b>	<b>2.3</b>
<b>Earnings per share in €</b> (Consolidated net income/loss : number of shares; diluted = undiluted)		<b>0.01</b>	<b>0.17</b>	<b>0.08</b>	<b>0.21</b>
Average number of shares outstanding (Possible rounding differences)		11.320.001	11.118.058	11.288.257	10.659.715

## Consolidated Cash-Flow Statement for the Period from 01/01 – 30/09/2007

	01/01 – 30/09/2007	01/01 – 30/09/2006
	€ million	€ million
<b>Operating activities</b>		
Operating result (EBIT)	+3.6	+1.8
Income tax received/paid (-)	0.0	0.0
Depreciation and amortization	3.2	3.5
Income and expenses not affecting cash-flow	-0.6	-0.6
<b>Operating result before changes in net current assets</b>	<b>6.1</b>	<b>4.6</b>
<b>Changes in assets and liabilities:</b>		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-5.0	0.0
Cash provided by investment grants	2.7	0.0
Increase (-)/decrease in inventories	-5.5	-4.6
Increase/decrease (-) in trade payables and other short-term provisions, liabilities	5.7	0.8
<b>Cash provided by operating activities</b>	<b>4.1</b>	<b>0.8</b>
<b>Investment activities</b>		
Purchase of fixed assets	-1.3	-2.3
Cash provided by interest	0.3	0.0
<b>Cash used for investment activities</b>	<b>-1.0</b>	<b>-2.3</b>
<b>Financing activities</b>		
Cash provided by/used for (-) bonds	-0.3	-2.3
Cash provided by/used for (-) long-term loans	8.6	-14.7
Cash provided by/used for (-) short-term bank loans	1.0	5.9
Contributions to subscribed capital and capital reserves	0.3	21.2
Cash provided by/used for (-) interest	-0.2	-0.2
<b>Cash provided by/used used for (-)financing activities</b>	<b>9.4</b>	<b>9.9</b>
<b>Net increase/decrease of liquid funds</b>	<b>12.5</b>	<b>8.3</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>3.8</b>	<b>2.8</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>16.3</b>	<b>11.1</b>
<b>Composition of liquid funds at the end of the reporting period</b>		
Marketable securities	0.0	0.0
+ Cash	16.3	11.1
	<b>16.3</b>	<b>11.1</b>

(Possible rounding differences)

## Sunways AG, Constance Changes in Shareholders' Equity for the Period from 01/01 – 30/09/2007

	Subscribed capital	Reserves	Profit/ loss brought forward	Total
	€ million	€ million	€ million	€ million
01 January 2006	9.6	15.2	-8.1	16.7
Changes relating to capital increase 10 %	1.0	17.8		18.7
Convertible bonds	0.4	1.8		2.3
Exercise of share options	0.1	0.1		0.1
<b>Net income</b>			<b>2.3</b>	<b>2.3</b>
<b>30 September 2006</b>	<b>11.2</b>	<b>34.8</b>	<b>-5.8</b>	<b>40.2</b>
01 January 2006	9.6	15.2	-8.1	16.7
Changes relating to capital increase 10 %	1.0	18.1		19.0
Transaction costs after taxes		-0.3		-0.3
Convertible bonds	0.6	2.3		2.9
Change in equity component of convertible bonds after taxes		-0.1		-0.1
Changes relating to share options pursuant to IFRS 2		0.1		0.1
Exercise of share options	0.1	0.1		0.1
<b>Net income</b>			<b>1.7</b>	<b>1.7</b>
<b>31 December 2006</b>	<b>11.3</b>	<b>35.3</b>	<b>-6.3</b>	<b>40.3</b>
31 December 2006 / 01 January 2007	11.3	35.3	-6.3	40.3
Convertible bonds	0.1	0.2		0.3
Changes relating to share options pursuant to IFRS 2		0.2		0.2
<b>Net income</b>			<b>0.9</b>	<b>0.9</b>
<b>30 September 2007</b>	<b>11.3</b>	<b>35.7</b>	<b>-5.4</b>	<b>41.6</b>

(Possible rounding differences)

## Notes to the Consolidated Interim Financial Statements (IFRS) as of 30 September 2007

### A. General information, basis of preparation and premises

This quarterly report has been drawn up in accordance with the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) established by the International Accounting Standards Board (IASB) and is in conformity with the material accounting principles described therein. The accounting and valuation principles correspond to those applied to the consolidated financial statements as of 31 December 2006. There have been no changes to the scope of consolidation against 31 December 2006.

This report has not been audited.

### B. Notes to the consolidated balance sheet

#### 1. Liquid funds.

	30/09/2007	31/12/2006
	€ million	€ million
Liquid funds	16.3	3.8

The rise in liquid funds was inter alia due to prepayments under long-term supply contracts in the amount of 10.0 million Euro received in the first half-year as well as other prepayments received in the amount of 1.3 million Euro. Furthermore, the last installment of the Common Task subsidies „Improvement of the regional economic structure“ (GA) was disbursed in the first half-year in the amount of 2.7 million Euro.

#### 2. Trade receivables, prepayments and accrued income and other current assets.

	30/09/2007	31/12/2006
	€ million	€ million
Trade receivables	11.1	8.0
Other assets and prepayments and accrued income	1.7	4.9
	11.8	12.9

The rise in trade receivables was inter alia due to increased sales in the second and third quarters.

The decline in other assets resulted from the disbursement of GA subsidies included in this item in the amount of 2.7 million Euro.

### 3. Inventories.

	30/09/2007	31/12/2006
	€ million	€ million
Raw materials and supplies	4.4	4.2
Work in progress	6.1	1.9
Finished goods and merchandise	12.9	10.2
Prepayments made	2.1	2.2
	<b>25.5</b>	<b>18.5</b>

The increase in work in progress by 3.7 million Euro against the end of the second quarter was mainly due to the reclassification of prepayments relating to reactors for the production of polysilicon (2.9 million Euro) previously reported under fixed assets. As of 30 September 2007, a rise by 0.2 million Euro against the prior year was recorded with respect to raw materials and supplies.

Finished goods and merchandise experienced a decline of 1.7 million Euro against the end of the second quarter.

**4. Tangible fixed assets.** Prepayments relating to reactors for the production of polysilicon formerly reported under fixed assets were reclassified to work in progress as of 30 September 2007 as Sunways AG had meanwhile entered into a contract with LDK Solar Hi-Tech Co., Ltd., Xinyu, on the erection of a turnkey plant for the production of polysilicon. In turn, a long-term polysilicon supply contract was concluded under which the raw materials supply is secured in the long run. Shipments will start in 2008.

Major additions were attributable to the expansion and modernization measures at the Constance and Arnstadt production plants. Additions to furnishings and fixtures related essentially to EDP hardware, furnishings for a new exhibition booth and other office equipment.

**5. Intangible assets.** Pursuant to IAS 38, development costs for new products as well as the further development and improvement of production procedures were capitalized in the amount of 0.6 million Euro in the reporting period. Such capitalized development costs mainly relate to the further development of and additions to the NT inverter product family as well as the new development of the AT inverter product family. Amortization of capitalized development costs in the first three quarters 2007 amounted to 0.2 million Euro.

Other additions primarily related to EDP software. No major disposals were recorded during the period under review.

**6. Other long-term assets.** Other long-term assets comprise financial accounts receivable in the amount of 0.8 million Euro as well as the provision of security for module shipments in the amount of 2.7 million Euro.

**7. Short-term liabilities and provisions.** The rise in trade payables largely resulted from the increase in business volume, in particular in the second and third quarters 2007. In addition, there were date-related effects.

The rise in other short-term liabilities inter alia related to the reclassification of the typical silent partnership interest of Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH („MBG“) in the amount of (1.0 million Euro) reported under long-term loans as of 31 December 2006. Such partnership interest will fall due for redemption as of 30 June 2008.

Furthermore, this item includes turnover tax payable in the amount of 1.3 million Euro, the short-term portion of lease-purchase liabilities in the amount of 0.6 million Euro as well as interest of 0.5 million Euro.

Provisions in the amount of 150,000 Euro were established for potential warranty claims relating to a former series of our inverters. Currently, an analysis is performed to determine the potential repair/replacement volume.

**8. Long-term liabilities.** On 15 October 2004, the Company issued convertible bonds. Bonds in a nominal amount of a further 0.1 million Euro were converted into shares in the third quarter 2007 so that the amount of convertible bonds outstanding as of 30 September 2007 was 6.6 million Euro.

In addition, long-term liabilities include the long-term portion of lease-purchase liabilities in the amount of 1.3 million Euro as well as a prepayment under long-term supply contracts of 10.0 million Euro received in the first half-year.

**9. Deferred investment grants.** Deferred investment grants related to government subsidies in connection with the erection of the production plant of Sunways Production GmbH in Arnstadt, Thuringia. The deferred item will be amortized affecting income over the expected useful life of the subsidized assets. Income from the amortization of this deferred item on the liabilities side amounted to 0.8 million Euro in the first nine months 2007.

## 10. Shareholders' equity.

### Subscribed capital

	Shares / €
As of 1 January 2007	11,270,284
Conversion of convertible bonds	59,249
<b>As of 30 September 2007</b>	<b>11,329,533</b>

Otherwise reference is made to „Changes in shareholders' equity“.

### Capital reserve

	€ thousand
As of 1 January 2007	35,306
Issue of share options	209
Conversion of convertible bonds	228
Reversal of deferred items (IFRS) due to conversion	-7
<b>As of 30 September 2007</b>	<b>35,736</b>

Otherwise reference is made to „Changes in shareholders' equity“.

## C. Notes to the consolidated income statement

**1. Sales.** With respect to the breakdown of sales, reference is made to “Segment reporting”.

**2. Other operating income.** Other operating income was mainly generated from the amortization affecting income of deferred investment grants (0.8 million Euro) and the reversal of specific allowances (0.3 million Euro).

**3. Depreciation and amortization.** Depreciation and amortization comprised scheduled depreciation of tangible fixed assets as well as scheduled amortization of intangible assets. There was no non-scheduled depreciation and amortization during the period under review.

**4. Other operating expenses.** Other operating expenses included mainly premises and operating costs as well as administrative and distribution costs.

**5. Interest income/expenses.** This item included interest income in the amount of 0.3 million Euro. Interest and similar expenses amounted to -0.7 million Euro. This item also included additional interest expenses pursuant to IFRS relating to the debt component of the convertible bonds as well as the transaction costs incurred in connection with the launch of the convertible bonds in the amount of 0.1 million Euro.

**6. Taxes on income.** In the third quarter, the German Federal Council (Deutscher Bundesrat) adopted the Corporate Tax Reform Act (Unternehmensteuerreformgesetz) 2008 which inter alia provides for a reduction of the corporate income tax to 15 percent as well as changes in the determination of trade tax amounts. The total tax burden of Sunways AG will thus decrease to 28 percent in the future.

Deferred tax assets relating to existing loss carryforwards are reported on the balance sheet of Sunways AG. These were previously valued on the basis of a tax rate of about 38 percent. Due to the adoption of the Corporate Tax Reform Act (Unternehmensteuerreformgesetz) 2008, a revaluation of the deferred tax assets in relation to loss carryforwards based on the future tax rate of approx. 28 percent was required in accordance with IAS 12. This resulted in a non-recurrent extraordinary tax expense of 1.1 million Euro in the interim financial statements as of 30 September 2007.

**7. Consolidated net income/loss.** As of 30 September 2007, consolidated net income of 0.9 million was reported. This amount includes a non-recurrent extraordinary tax expense of 1.1 million Euro. Excluding such non-recurrent tax expense, consolidated net income for the first nine months 2007 would have been 2.0 million Euro.

#### D. Changes in shareholders' equity

Changes in the Company's shareholders' equity during the period under review are shown in „Changes in shareholders' equity 2007“.

#### E. Earnings per share

	01 - 09/2007	01-09/2006
Result for the period / € million	0.9	2.3
Number of shares (weighted)	11,288,257	10,659,715
<b>Earnings per share / €</b>	<b>0.08</b>	<b>0.21</b>

The figures presented correspond to undiluted earnings per share within the meaning of IAS 33 („basic earnings per share“). As the calculation of diluted earnings does not result in any material changes, no figures are presented in accordance with IAS 33.

#### F. Notes to the consolidated cash-flow statement

The consolidated cash-flow statement shows how the group's cash changed over the course of the reporting period as a result of the inflow and outflow of funds. In accordance with IAS 7 (Cash-Flow Statements), a distinction is made between cash-flows from operating, investing and financing activities. The liquidity shown in the cash-flow statement includes cash in hand, checks, cash at bank and marketable securities.

#### G. Subsequent events

On 5 November 2007, Sunways AG and Solarvalue AG entered into a cooperation agreement. The subject matter of this agreement is the cooperation in the areas of production and processing into marketable solar cells of solar silicon based on metallurgical silicon. Solarvalue intends to produce cost-effective solar silicon as from the first half-year 2008. The envisaged capacity for 2008 is several thousand metric tons; the production plan is located in Ruse, Slovenia. Under the cooperation arrangement, Sunways will manufacture solar cells from the material produced by Solarvalue. Through this cooperation, Sunways and Solarvalue will compile joint know-how to accelerate the development of "solargrade silicon" for photovoltaic applications. Upon successful implementation of the development cooperation, both partners intend to enter into a supply contract.

#### H. Related-party transactions

There were no major related-party transactions in the first nine months 2007.

