

QUARTERLY REPORT

Q III / 2008

July – September 2008

sunways
Photovoltaic Technology

Sunways AG, Constance

Management report as of 30 September 2008

Highlights
3rd quarter 2008

Major events in the third quarter (compared to the third quarter 2007)

- 11 percent rise in sales to 68.6 million EUR; decline in EBIT to 0.6 million EUR
- expanded production facilities will be commissioned by the end of 2008
- reassignment of Management Board responsibilities initiated: Jörg von Strom appointed as COO

Founder and CEO
R. Burkhardt will hand over
the Company's management
to CFO M. Wilhelm

0. Change of CEO and reassignment of Management Board responsibilities

In connection with the strategic realignment of Sunways AG, Roland Burkhardt, the founder and CEO of Sunways AG, will hand over the company's management to former CFO Michael Wilhelm as of 1 January 2009. In his capacity as CEO, Michael Wilhelm will be in charge of the strategic as well as the financial affairs of Sunways AG from next year onwards. In line with his personal interests and priorities, Roland Burkhardt as Chief Technology and R&D Officer will concentrate on technological innovations and the further development of Sunways products in the future. The reasons for this reassignment of responsibilities are the forthcoming growth phase and related increased requirements, in particular also in the commercial area. The change in Management Board responsibilities sponsored by Mr. Burkhardt will not have any impact on the ownership structure of Sunways AG.

New Management Board
members appointed for the
distribution & marketing
and SCM divisions

In addition, the Supervisory Board of Sunways AG appointed Mr. Jörg Frei as Management Board member in charge of the newly created distribution and marketing division as of 17 November 2008. Former COO Ralph Kienzler resigned from office as of 31 October 2008. As of 1 November 2008, Jörg von Strom was vested with extended competencies and appointed as successor and new COO. Mr. von Strom will be in charge of the procurement, supply chain management and production areas.

Following this restructuring and expansion of the Management Board to four members, all major positions within the management team of Sunways AG will be filled and the strategic and operational responsibilities clearly assigned as from 2009. The expansion and reassignment of management competencies thus constitutes another important step for the implementation of the envisaged growth step of Sunways AG from 2009 onwards.

1. Business operations. The sales growth of Sunways AG also continued during the third quarter 2008. Consolidated sales further increased against the comparable prior year quarter as well as against the second quarter 2008. As expected, international business experienced a weaker development due to the still outstanding decision on the continuation of the feed-in law in Spain and recorded a decline in volume against the third quarter. Although sales prices for our high-quality photovoltaic components decreased less than expected, EBIT declined against the earnings of the prior year quarter due to another rise in the cost of materials as well as higher staff and operating expenses in connection with the expansion of our Arnstadt production plant.

In the third quarter 2008, consolidated sales rose by 11 percent to 68.6 million EUR (3rd quarter 2007: 61.7 million EUR) over the prior year. EBIT achieved in the reporting period declined by 70 percent to 0.6 million EUR (3rd quarter 2007: 2.0 million EUR). EBITDA in the third quarter amounted to 1.7 million EUR (3rd quarter 2007: 3.1 million EUR). Consolidated net income at 0.2 million EUR corresponded to the prior year level.

Sales generated abroad markedly increased against the comparable prior year quarter by 65 percent. However, international business declined by 11 percent compared to the second quarter 2008. This decline was due to regulatory uncertainties in Spain that caused sales in our strongest foreign market to decrease by approx. 31 percent against the second quarter 2008.

The solar systems segment is a growth vehicle in 2008

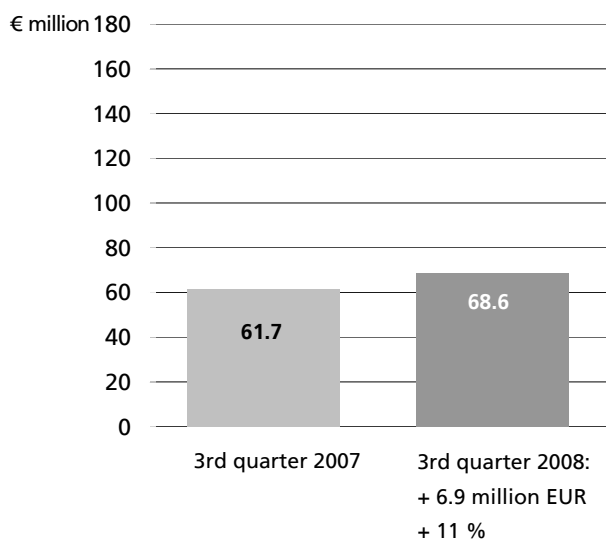
Fueled by a rise in sales of more than 40 percent in the solar systems segment, consolidated sales rose by 22 percent to 184.4 million EUR (prior year period: 150.6 million EUR) during the 2008 nine-month period. Despite the strong increase in the systems business and the fact that profitability in the solar systems segment markedly increased against the first nine months 2007, consolidated EBIT declined as a result of the weakening of the solar cell business since the beginning of the year, but in particular also due to the marked rise in the materials expense ratio. Compared to the first nine months of 2007, EBIT declined by 1.4 million EUR to 2.2 million EUR. Net income in the first nine months at 0.9 million EUR remained stable when compared to the relevant 2007 period.

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

There were no significant new opportunities and risks in the period under review other than those described in the 2007 annual report.

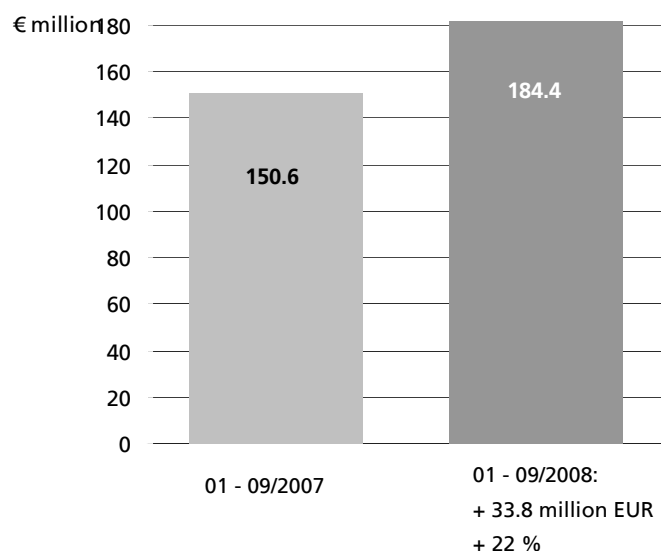
Quarterly comparison

11 percent rise in sales



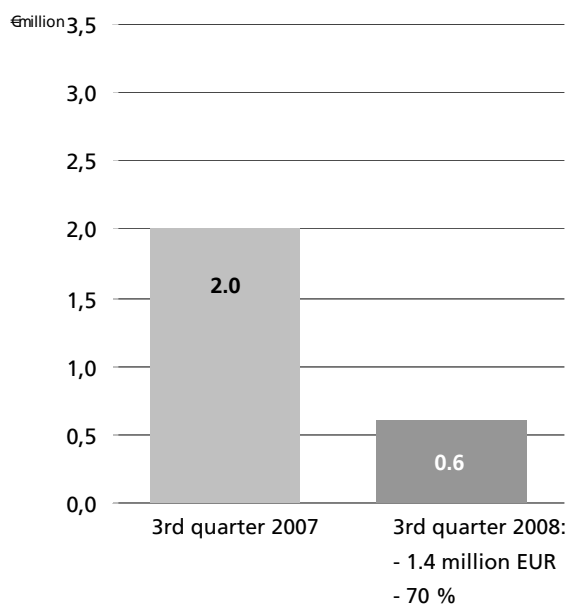
Nine-month comparison

22 percent rise in sales



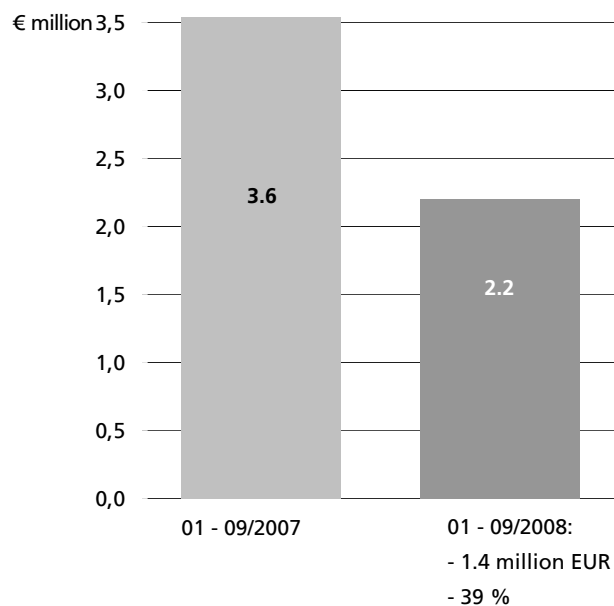
Quarterly comparison

70 percent decline in EBIT



Nine-month comparison

39 percent decline 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 as well as distribution of and project management for solar systems, including Sunways Solar Modules).

	3rd quarter 2008			3rd quarter 2007		
	Solar		Total	Solar		Total
	Solar cells	systems		Solar cells	systems	
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	19.1	49.5	68.6	23.1	38.6	61.7
EBITDA	0.2	+1.5	+1.7	+2.5	+0.6	+3.1
Depreciation and amortization	-0.9	-0.2	-1.1	-0.9	-0.2	-1.1
EBIT	-0.7	+1.3	+0.6	+1.6	+0.4	+2.0

Possible rounding differences.

	01 - 09/2008			01 - 09/2007		
	Solar		Total	Solar		Total
	Solar cells	systems		Solar cells	systems	
	€ million	€ million	€ million	€ million	€ million	€ million
Sales	59.3	125.1	184.4	61.8	88.8	150.6
EBITDA	+0.3	+5.2	+5.5	+5.7	+1.0	+6.7
Depreciation and amortization	-2.6	-0.7	-3.3	-2.7	-0.5	-3.1
EBIT	-2.3	+4.5	+2.2	+3.0	+0.5	+3.6

Possible rounding differences.

Solar cells. Sales in the solar cell segment in the third quarter 2008 declined by 17 percent to 19.2 million EUR (3rd quarter 2007: 23.1 million EUR). According to the percentage-of-completion method, quarterly sales include another portion of the project business with LDK Solar in the amount of 1.0 million EUR. Due to another rise in the cost of raw materials and additional expense items relating to the expansion of the Arnstadt plant, EBIT declined overproportionately from 1.6 million EUR in the third quarter 2007 to -0.7 million EUR in the comparable 2008 period.

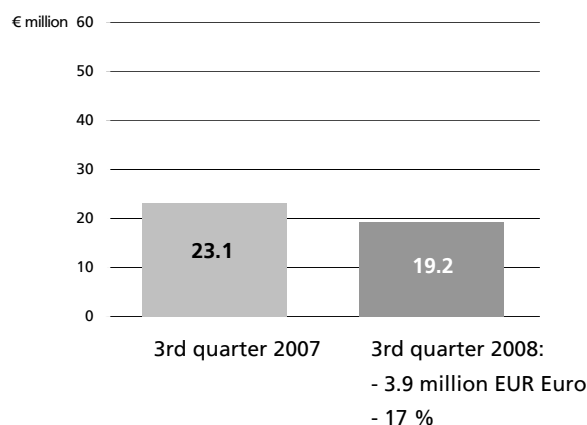
On a cumulative basis, solar cell sales for the first nine months 2008 decreased slightly against the comparable prior year period from 61.8 million EUR to 59.3 million EUR, EBIT markedly declined from 3.0 million EUR for the period from January through September 2007 to -2.3 million EUR for the first nine months of 2008.

International quota in the cell business about 32 percent

The international quota in the cell segment rose from 23.4 percent for the first nine months 2007 to 31.9 percent for the first nine months 2008. The international sales volume reached 18.9 million EUR and thus recorded an increase of 30 percent over the comparable nine-month period in 2007. During the three months from July through September 2008, international sales in the segment amounted to 6.1 million EUR which corresponds to an increase by 18.6 percent against the third quarter 2007.

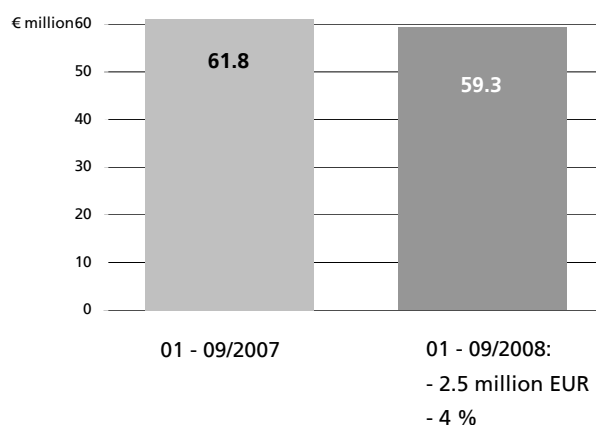
Quarterly comparison

17 percent decline in sales



Nine-month comparison

4 percent decline in sales



Arnstadt expansion according to plan

The material supply situation was improved again by entering into another wafer supply contract

The expansion of our Arnstadt production plant from 30 to 100 megawatts is currently being implemented. As planned, our new production line will be initialized and commissioned by the end of 2008. The additional capacity of 70 megawatts in Arnstadt will thus be available in time for the first wafer shipments under the cooperation with LDK Solar. Sunways also expects first shipments of materials from LDK to arrive at the end of 2008/beginning of 2009. In addition, Sunways AG entered into a long-term wafer supply contract with Swiss Wafers AG of Switzerland at the end of October 2008. The contract relates to the supply of a total of 115 megawatts of silicon wafers and will run from 2009 to 2016. As from the effective date of these two wafer supply contracts, Sunways will have at its disposal sufficient amounts of raw materials to supply its two production plants until full capacity utilization.

The supply of raw materials for the fourth quarter 2008 has largely been secured. The focus of procurement activities is expected to be on the spot market for the last time in the current quarter. Although the prices for high-quality wafers in the spot market still remain at a high level, there are in some cases already signs of price flexibility. Furthermore, the wafer volumes offered are significantly larger than three months ago. The result for the fourth quarter 2008 will, however, most likely continue to be affected by the high cost of materials.

In the third quarter 2008, investments in the solar cell segment amounted to 0.6 million EUR. Investments in the first three quarters thus aggregated 4.8 million EUR and mainly related to the expansion of the Arnstadt production plant. A portion of the prepayments initially made by Sunways AG with respect to machinery for the expansion of the Arnstadt production plant was recovered by the Company under lease purchase contracts in connection with the refinancing of the facilities. The outstanding funds relating to these facilities will be recovered in the fourth quarter 2008.

Solar systems and projects. Segment sales in the third quarter 2008 grew by 28 percent against the prior year period to 49.5 million Euro (3rd quarter 2007: 38.6 million EUR). EBIT experienced an overproportionate growth during the three-month period from July through September and rose by more than twice its original volume to 1.3 million EUR (3rd quarter 2007: 0.4 million EUR).

Inverters win significant new market share in 2008

On a cumulative basis, the solar systems segment recorded an even more positive development over the first nine months 2008: Sales rose by 41 percent to 125.1 million EUR (prior year period: 88.8 million EUR), EBIT grew to nine times its original amount, from 0.5 million EUR in the first nine months 2007 to 4.5 million EUR in the comparable 2008 period. This marked segment growth resulted from the module business, which in the first nine months 2008 increased by more than 30 percent against the relevant 2007 period, but in particular also from our high-margin inverter business. With a rise in sales volume by more than 70 percent against the comparable nine-month period, our high-quality inverters won significant new market share. Accordingly, inverter sales in the 2008 nine-month period rose by more than 100 percent against the comparable prior year period.

Throughout the entire solar systems segment, the international quota rose from 7.7 percent in the first nine months 2007 to 17.0 percent in the comparable 2008 period. Sales in the first nine months 2008 reached a volume of 125.2 million EUR which corresponds to an increase by more than 40 percent against the prior year period. Sunways sales outside Germany rose from 6.1 percent during the period from July to September 2007 to 12.6 percent for the corresponding 2008 period. Compared to the third quarter 2007, international sales increased by 3.9 million EUR to 6.3 million EUR during the period under review.

The smaller international sales quota in the solar systems segment in the third quarter compared to the nine-month period was largely due to the slump in demand in the Spanish market. Despite a satisfactory rise in sales in Italy and Switzerland, the decline in sales in Spain was not offset by gains in our other European core markets in the third quarter.

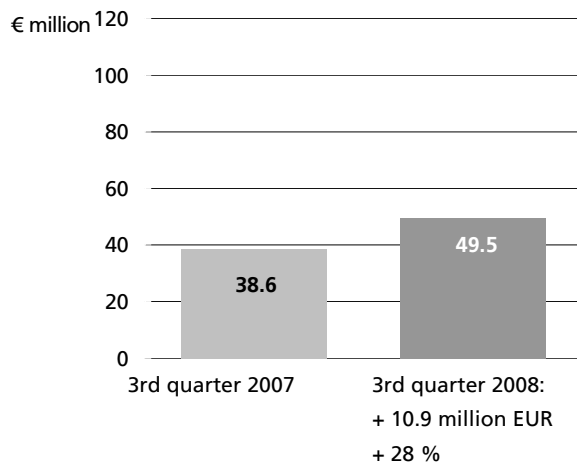
In the third quarter 2008, investments in the solar systems and projects segment amounted to 0.4 million EUR. The total investment volume in the first nine months 2008 amounted to 0.8 million EUR and mainly related to the new development and improvement of Sunways inverters, the development of tools for the installation of photovoltaic systems as well as a photovoltaic system for testing purposes.

International sales start for Sunways central inverter

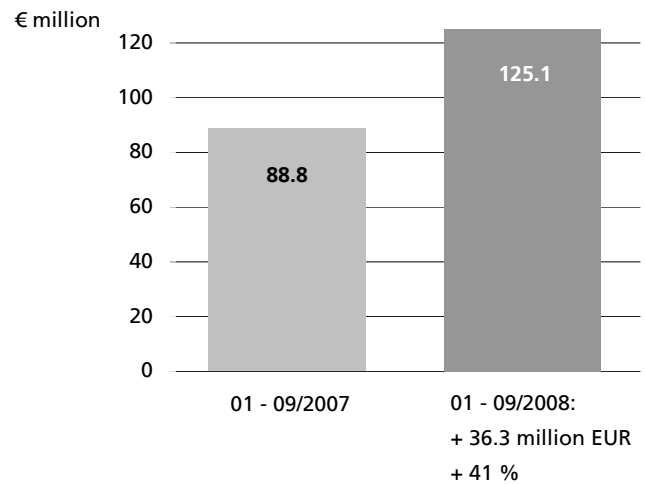
The Solar Inverter PT 30k launched in the German market in April 2008 for use in large systems was introduced to the international market in September 2008 and generated strong interest among customers already within the first few weeks after the sales start. The inverter generates the highest output in every performance class, achieves excellent efficiency rates when compared at the national and international levels and is among the most compact and lightest devices in its class. Outside Germany, the device can be purchased via the distribution offices in Bologna (Italy) and Barcelona (Spain) as well as the subsidiary MHH France in Toulouse (France).

Quarterly comparison

28 percent rise in sales

**Nine-month comparison**

41 percent rise in sales

**3. Technology and products**

Efficiency rates of solar cells further increased

Solar cells. Increasing the quality and efficiency of our solar cells continues to be one the topmost goals of our research and development activities. In the third quarter 2008, we were again able to improve the efficiency rates of our solar cells in mass production: Our monocrystalline cells now achieve average efficiency rates of more than 17 percent. The prototypes of a new generation have efficiency rates of up to 18 percent. Our textured multicrystalline solar cells have average efficiency rates of more than 15 percent, with top rates reaching even more than 16 percent.

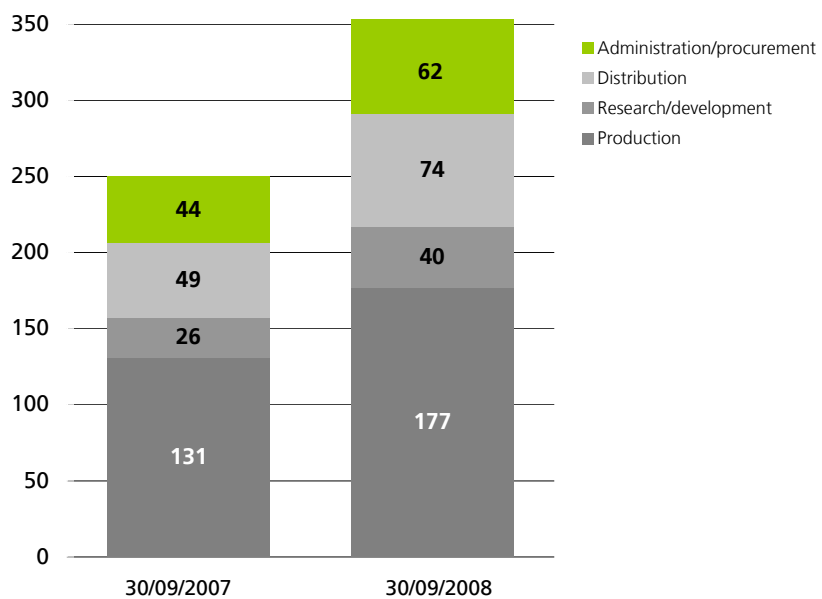
Inverter performance improved

Solar systems and projects. We also continuously strive to improve the efficiency of our products in the solar systems segment. In the past quarter, the output power of the Sunways Solar Inverters NT 2600 and NT 4000 was increased by just under 15 percent. The efficiency of the NT 2600 increased by 13.6 percent which corresponds to an output power of 2.5 kilowatts. The NT 4000 achieved an increase in efficiency by 12.1 percent and in output power by 3.3 kilowatts to 3.7 kilowatts. Thus Sunways adapted these two inverters to the continuously rising efficiency rates of its solar modules and markedly increased the efficiency and quality of its photovoltaic systems.

The optimized combination and adjustment of the components of a solar system means maximum yields for the operator of the photovoltaic system. Therefore, our customers will benefit in the long term from our efforts to optimize the interaction between our photovoltaic components through higher yields and faster payoffs from solar system investments.

4. Personnel and social matters

As of 30 September 2008, the Sunways Group employed a workforce of 353 (2007: 250). The breakdown of employees by function was as follows:



The increase in the number of employees mainly resulted from the current expansion of Sunways Production GmbH and the promotion of our distribution activities.



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 2008:

	Shares as of 30/09/2008
Management Board	
Roland Burkhardt, chairman	1,780,345
Ralph Kienzler	1,500
Michael Wilhelm	2,000
Supervisory Board	
Otto Mayer, chairman	744,000
Dr. Roland R. Bahr	5,902
Thomas Nordmann	0
Frank Wehking	0
Dr. Christian Bosse	0
Andreas Görwitz	5,100

Pursuant to § 15a of the Securities Trading Act (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 by the end of the calendar year.

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

Date	Name	Transaction
30 September 2008	Andreas Görwitz (member of the Supervisory Board)	Purchase; 2,100 shares at the price of 4.70 EUR per share (total volume 9,870 EUR); stock exchange: Frankfurt am Main

6. Outlook for the entire fiscal year 2008

Dampened demand in Spain, accelerated growth in Italy

In all, Sunways AG anticipates a further positive development in the photovoltaic markets as well as an increasing demand for regenerative energies. Following the announcement of the new decree on feed-in tariffs in Spain, we expect the demand from Spain to increase slightly. In our opinion, the Italian photovoltaics market will also continue to grow. The domestic market for solar systems will experience a positive development: We still anticipate a market growth in Germany in the two-digit percentage range.

Raw materials supply in 2008 still largely at spot market prices

With respect to the entire fiscal year 2008, we expect that the earnings situation will continue to be affected against the background of the even more cost-intensive raw materials supply in the spot market in 2008, with sales rising slightly. By reassigning and expanding Management Board responsibilities, we took further strategic steps in October and November to be able to successfully realize the planned growth spurt of Sunways from 2009 onwards. We also ensured the availability of adequate amounts of raw materials: From next year on, we will, in addition to the expected wafer shipments under the cooperation agreement with LDK Solar, receive shipments under a supply contract entered into with Swiss Wafers in October 2008. Furthermore, shipments of about 7.4 MW per year will start in January 2009 under one of the two long-term supply contracts with Deutsche Solar. Thus we expect to have sufficient raw materials to operate our two production plants in Constance and Arnstadt at full capacity. To ensure sales with respect to a portion of our markedly increased future cell production capacities of 116 megawatts, we have already entered into long-term sales contracts for our solar cells.

Reassignment of Management Board responsibilities and additional wafer supply contract will optimize starting position for growth spurt

In addition, we will consistently continue our research and development efforts to continuously improve our photovoltaic products as well as our measures to further optimize our distribution and marketing organizations. We are convinced that product and service quality as well as qualified customer orientation will be crucial elements for a photovoltaic company's success in the future.

7. Representation by legal representatives

We represent that, to best of our knowledge, these consolidated interim financial statements, in accordance with the applied principles of proper consolidated interim reporting, accurately present the Group's asset, financial and earnings situation and that the Group interim management report gives a true and fair view of the business development, including the result of operations and financial position of the Group, and that the major opportunities and risks of the Group's expected development during the remainder of the fiscal year are described therein.

Constance, 10 November 2008



Roland Burkhardt
Chairman of the Management Board
(CEO)



Michael Wilhelm
Member of the Management Board
(CFO)

8. Financial calendar 2008

10 November 2008	Analysts' conference, Frankfurt
11 November 2008	Deutsches Eigenkapitalforum, Frankfurt
21 November 2008	Analysts' conference at the Forum Solarpraxis, Berlin

Subject to changes.

This quarterly report is also available in the German original. The German and English versions, annual reports as well as current events and information are available at our home page (www.sunways.de).

9. Contact

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Forward-looking statements in this quarterly report. This quarterly report includes statements relating to the future business development of Sunways AG that are based on assumptions and estimates made by management at the time of printing. Should the assumptions underlying these prognoses not eventuate, actual results may vary substantially from the forecasts. Uncertainties include inter alia changes in the political, legal, economic and business environment, exchange and interest rate fluctuations as well as the behavior of competitors and other market participants. We neither intend nor assume any obligation to update forward-looking statements on an ongoing basis as these are based exclusively on the circumstances prevailing on the date of publication.



Sunways AG, Constance

Consolidated Interim Financial Statements (IFRS)

as of 30 September 2008

Sunways AG, Constance Consolidated Balance Sheet as of 30 September 2008

	Note	30/09/008	31/12/2007
		€ million	€ million
Assets			
Current assets			
Liquid funds	C 1	6.0	14.2
Trade receivables	C 2	9.1	6.8
Inventories	C 3	41.2	31.4
Prepayments and accrued income and other current assets	C 2	5.0	4.1
Total current assets		61.3	56.5
Tangible fixed assets	C 4	30.7	28.3
Intangible assets	C 5	2.0	2.2
Financial assets		0.1	0.1
Goodwill		0.2	0.2
Other long-term assets	C 6	3.1	3.4
Deferred taxes	C 7	3.5	3.4
Total assets		100.9	94.1
Liabilities and shareholders' equity			
Current liabilities			
Short-term loans and current portion of long-term loans		6.1	2.0
Trade payables	C 8	20.6	12.7
Prepayments received		2.1	0.7
Provisions	C 8	3.4	3.5
Income tax payable		0.2	0.3
Other current liabilities	C 8	1.2	12.1
Accruals and deferred income	C 8	4.0	3.8
Total current liabilities		37.7	35.0
Long-term liabilities			
Bonds	C 9	5.5	6.5
Long-term loans and other long-term liabilities	C 9	4.2	1.2
Deferred taxes		1.1	0.5
Total long-term liabilities		10.8	8.2
Deferred investment grants	C 10	7.9	8.7
Shareholders' equity			
Subscribed capital	C 11	11.6	11.3
Capital reserve	C 11	37.1	36.0
Accumulated profit/loss		-4.1	-5.0
Minority interests	C 11	0.0	0.0
Total shareholders' equity		44.6	42.3
Total liabilities and shareholders' equity		100.9	94.1

(Possible rounding differences)

Sunways AG, Constance
Consolidated Income Statement
for the Period from 01/01 – 30/09/2008

	Note	01/07 – 30/09/2008	01/07 – 30/09/2007	01/01 – 30/09/2008	01/01 – 30/09/2007
		€ million	€ million	€ million	€ million
Sales	D 1	68.6	61.7	184.4	150.6
Changes in inventories of finished and unfinished goods		-1.1	0.2	0.0	3.1
Gross performance		67.5	61.9	184.4	153.7
Other operating income	D 2	0.6	0.3	1.3	1.2
Cost of materials		-59.0	-53.7	-159.0	-132.4
Personnel expenses	D 3	-3.7	-2.6	-10.3	-7.7
Depreciation and amortization	D 4	-1.1	-1.1	-3.3	-3.2
Other operating expenses	D 5	-3.7	-2.8	-11.0	-8.1
Operating result (EBIT)		+0.6	+2.0	+2.2	+3.6
Interest income/expenses	D 6	-0.2	-0.1	-0.8	-0.4
Result before taxes		0.4	2.0	1.4	3.2
Taxes on income	D 7	-0.1	-1.8	-0.5	-2.3
Result before minority interests		0.2	0.2	0.9	0.9
Consolidated net income/loss	D 8	0.2	0.2	0.9	0.9
Earnings per share in € (Consolidated net income/loss : number of shares; diluted = undiluted)		0.02	0.01	0.08	0.08
Average number of shares outstanding		11,573,971	11,320,001	11,458,135	11,288,257

(Possible rounding differences)

Sunways AG, Constance
Consolidated Cash-flow Statement
for the Period from 01/01 – 30/09/2008

	01/01 – 30/09/2008	01/01 – 30/09/2007
	€ million	€ million
Operating activities		
Operating result (EBIT)	2.2	3.6
Depreciation and amortization	3.3	3.2
Write-up of convertible bonds not affecting cash-flow	0.1	0.0
Income and expenses not affecting cash-flow	-0.3	-0.6
Operating result before changes in net current assets	5.3	6.1
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-3.2	-5.0
Cash provided by investment grants	0.0	2.7
Increase (-)/decrease in inventories	-9.8	-5.5
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	-1.9	5.7
Cash provided by operating activities	-14.9	4.1
Investment activities		
Acquisition of fixed assets	-5.5	-1.3
Cash provided by disposals of long-term assets	0.2	0.0
Cash provided by/used for (-) interest	0.2	0.3
Cash used for investment activities	-5.1	-1.0
Financing activities		
Cash provided by/used for (-) long-term bank loans	3.4	8.6
Cash provided by/used for (-) short-term bank loans	4.1	1.0
Contributions to subscribed capital and capital reserves	0.0	0.3
Cash provided by/used for (-) minority interests	0.0	0.0
Cash provided by/used for (-) interest	-0.5	-0.2
Cash provided by/used for other long-term liabilities	-0.4	0.0
Cash provided by/used for (-) financing activities	6.5	9.4
Net increase/decrease of liquid funds	-8.2	12.5
Cash and cash equivalents at the beginning of the reporting period	14.2	3.8
Cash and cash equivalents at the end of the reporting period	6.0	16.3
Composition of liquid funds at the end of the reporting period		
+ Cash	6.0	16.3
	6.0	16.3

(Possible rounding differences)

Sunways AG, Constance Changes in Shareholders' Equity from 01/01 – 30/09/2008

	Subscribed capital	Reserves	Profit/loss brought forward	Minority interests	Total
	€ million	€ million	€ million	€ million	€ million
01 January 2007	11.3	35.3	-6.3		40.3
Convertible bonds	0.1	0.2			0.3
Changes related to share options pursuant to IFRS 2 (expense related to employee options)		0.2			0.2
Net income			0.9		0.9
30 September 2007	11.3	35.6	-5.6		41.6
01 January 2007	11.3	35.3	-6.3		40.3
Convertible bonds	0.1	0.4			0.5
Changes in the equity component of convertible bonds (after tax)		0.0			0.0
Changes related to share options pursuant to IFRS 2 (expense related to employee options)		0.3			0.3
Net income			1.3		1.3
31 December 2007	11.4	36.0	-5.1		42.3
31 December 2007 / 01 January 2008	11.4	36.0	-5.1		42.3
Convertible bonds	0.2	0.8			1.0
Changes in the equity component of convertible bonds (after tax)		0.0			0.0
Changes related to share options pursuant to IFRS 2 (expense related to employee options)		0.4			0.4
Changes in minority interests				0.0	0.0
Net income			0.9		0.9
30 September 2008	11.6	37.1	-4.1	0.0	44.6

(Possible rounding differences)

Notes to the consolidated interim financial statements (IFRS) as of 30 September 2008

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 2007.

These interim financial statements do not include all data required for the consolidated financial statements as of the end of any fiscal year and, therefore, should be read in conjunction with the consolidated financial statements as of 31 December 2007. These consolidated financial statements have not been audited or reviewed by an auditor.

B. Information on the scope and methods of consolidation

All subsidiaries are included in the consolidated financial statements. Subsidiaries are companies that are directly or indirectly controlled by us and fully consolidated.

MHH France S.A.S, Toulouse / France, was established as of 9 June 2008. On the occasion of its foundation, MHH Solartechnik GmbH, Tübingen, a wholly-owned subsidiary of Sunways AG, took a 90 percent stake in the subscribed capital of 100,000 EUR. The capital contribution was fully paid in. The activities of MHH France S.A.S are focused on the distribution of solar systems as well as the planning and implementation of larger solar projects in France.

The first consolidation of MHH France S.A.S was recorded as of 09 June 2008. Capital consolidation was effected in accordance with the book value method. In this context, the acquisition cost of the investment is offset against the pro rata book value of its shareholders' equity at the time of its initial inclusion in the consolidated financial statements. Capital consolidation did not result in any positive or negative difference.

Material intercompany profits and losses, sales as well as expense and income items and receivables and liabilities among the consolidated companies are netted. Intercompany profits and losses relating to intra-group transactions are eliminated.

Deferred taxes are reported with respect to consolidation measures to the extent that any tax expense variations are likely to be offset in subsequent fiscal years.

C. Notes to the consolidated balance sheet

1. Liquid funds.

	30/09/2008	31/12/2007
	€ million	€ million
Liquid funds	6.0	14.2

The decline in liquid funds was largely due to the scheduled repayment of pre-payments received and reported under "other liabilities" as of 31 December 2007 as well as to investments in the expansion of the Arnstadt production plant made in the first nine months. Liquid funds increased by 4.0 million EUR against 30 June 2008.

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

	30/09/2008	31/12/2007
	€ million	€ million
Trade receivables	9.1	6.8
Other assets and prepayments and accrued income	5.0	4.1
Total	14.1	10.9

Trade receivables rose by 2.3 million EUR against 31 December 2007. Trade receivables relate to long-term production orders reported in accordance with the percentage-of-completion method pursuant to IAS 11. As of 30 September 2008, these receivables amounted to 3.0 million EUR (31 December 2007: 0.2 million EUR). All other trade receivables declined by 0.5 million EUR against 31 December 2007.

Other assets as of 30 September 2008 included accounts receivable relating to prepayments made for plant under construction in the amount of 1.4 million EUR. Sunways AG initially made prepayments for machinery referring to the expansion of the Arnstadt production plant. These investments have meanwhile been refinanced via lease purchase contracts and the prepayments made by the Company are gradually repaid to Sunways AG.

3. Inventories.

	30/09/2008	31/12/2007
	€ million	€ million
Raw materials and supplies	5.4	3.0
Work in progress	3.0	1.8
Finished goods and merchandise	20.7	14.1
Prepayments made	12.2	12.5
Total	41.2	31.4

Work in progress recorded a date-related increase by 1.2 million EUR, raw materials and supplies by 2.4 million EUR. This rise was due to seasonal effects and price increases. Finished goods and merchandise increased by 6.6 million EUR against 31 December 2007. This rise primarily resulted from increased sales volumes in the first three quarters 2008 and, in addition, from shipments of agreed module quotas to be delivered in the fourth quarter. Prepayments made declined by 0.3 million EUR.

4. Tangible fixed assets. Significant additions to tangible fixed assets relate to the expansion of the production plant in Arnstadt, in particular the construction of a new office building and warehouse as well as corresponding office equipment and the connection of new machinery to the supply units. A significant part of machinery under construction has meanwhile been refinanced under lease purchase contracts. Advance payments by Sunways AG so far included in prepayments made are being repaid to the Company and thus were transferred to other assets.

Other additions were attributable to expansion and modernization measures for the Constance production plant. Additions to furnishings and fixtures mainly related to the setting up of a new training center, additions to laboratory equipment, additional EDP equipment (hardware), other office equipment as well as the establishment of our distribution office in Bologna / Italy.

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 0.1 million EUR in the reporting period. Such capitalized development costs mainly relate to the further development of and addition of a transformerless central inverter to the inverter product family. Amortization of capitalized development costs in the first three quarters 2008 amounted to 0.4 million EUR.

Other additions primarily related to EDP software.

6. Other long-term assets. Other long-term assets comprise financial accounts receivable in the amount of 0.5 million EUR as well as the long-term portion of the security provided for module shipments in the amount of 2.7 million EUR.

7. Deferred taxes. Mainly deferred tax assets relating to existing loss carry-forwards are reported under this item. Valuation is based on a tax rate of 28.25 percent.

8. Short-term liabilities and provisions. The rise in trade payables by 6.6 million EUR is date-related and inter alia resulted from the delivery of agreed module quotas (see item C.3) as well as increased sales volumes. Prepayments received on orders recorded a date-related increase by 1.4 million EUR.

Provisions remained almost unchanged against the fourth quarter 2007 and largely related to personnel expenses, warranties and outstanding invoices.

The decline in other short-term liabilities was due to the scheduled repayment of prepayments received as well as the repayment of the typical silent partnership interest of Mittelständische Beteiligungsgesellschaft Baden-Württemberg GmbH as of 30 June 2008 and corresponds to the decline in liquid funds. In this context, reference is also made to item C.1.

Accruals and deferred income include forfeited future revenues under long-term production orders. In this context, reference is also made to item C.2.

9. Long-term liabilities. The convertible bond item relates to the convertible bonds issued by the Company on 15 October 2004. In the first three quarters 2008, the nominal amount of bonds converted into shares was 1.0 million EUR. As of 30 September 2008, the remaining liabilities under the convertible bonds amounted to 5.5 million EUR.

Long-term bank loans (3.4 million EUR) to finance the expansion of the Arnstadt production plant as well as the long-term portion of lease purchase liabilities in the amount of 0.8 million EUR are reported under other long-term liabilities.

10. Deferred investment grants. Deferred investment grants relate to government subsidies in connection with the erection of the solar cell 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 EUR in the first three quarters 2008.

11. Shareholders' equity.

Subscribed capital. Reference is made to „Changes in shareholders' equity“.

	Shares / €
As of 01 January 2008	11,374,913
Conversion of convertible bonds	205,291
As of 30 September 2008	11,580,204

Changes in subscribed capital exclusively related to the conversion of convertible bonds into shares.

Capital reserves. Changes in capital reserves are shown below:

	€ thousand
As of 01 January 2008	35,958
Conversion of convertible bonds	791
Changes in the equity component (pursuant to IFRS) of convertible bonds (after tax)	-16
Changes related to share options pursuant to IFRS 2 (expense related to employee options)	362
As of 30 September 2008	37,095

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

Minority interests. In June 2008, MHH France S.A.S in Toulouse / France, was established as a 90 percent subsidiary of MHH Solartechnik GmbH, Tübingen. The remaining 10 percent of its shares held by management are reported as minority interests under shareholders' equity.

Share option scheme. The total number of share options newly issued to employees and members of the Management Board under the existing Long Term Incentive Plan 2006 in the first three quarters 2008 amounted to 99,320 and 46,667 respectively. Thus the total number of shares issued under the scheme so far is 304,687. As of 30 September 2008, a total of 10,970 share options had lapsed so that 293,717 share options may still be exercised. In accordance with IFRS 2, the share options are carried at the fair value of the options issued and are reported under personnel expenses as well as in the form of a corresponding increase in capital reserves.

The exercise price of the options newly issued in the first quarter 2008 (99,320) was determined at the time of commitment and amounted to 8.21 EUR. The fair value of the newly issued options was estimated by the Company to be 4.26 EUR. The exercise price of the share options newly issued in the second quarter (46,667) amounted to 7.53 EUR, the fair value was estimated to be 4.07 EUR. This determination was based on the Black-Scholes option price model. The model calculations were based on the following other parameters assumed for this purpose:

Expected share price volatility	53.49 %
Risk-free interest	4.5 %
Expected dividend	0.0 %

Volatility was determined approximately on the basis of historical volatilities. Risk-free interest corresponds to the average return on a long-term government bond.

Personnel expenses reported in the period under review with respect to share options already existing and those newly issued in the first three quarters 2008 amounted to 0.4 million EUR.

D. Notes to the consolidated income statement

Comparable period data relate to the period from 1 January to 30 September 2007.

1. Sales. Sales rose by 22 percent against the comparative prior year period. With respect to the breakdown of sales, reference is made to the information set forth under "Segment reporting".

Sales for the first three quarters 2008 include an amount of 2.8 million EUR relating to long-term production orders accounted for according to the percentage-of-completion method pursuant to IAS 11. As, based on the project's progress, expenses and income until the date of the order's completion could now be reliably estimated, a partial profit of 2.3 million EUR was realized in the first three quarters 2008. The percentage of completion was determined according to the cost-to-cost method.

2. Other operating income. Other operating income largely relates to the amortization affecting income of deferred investment grants in the amount of 0.8 million EUR.

3. Personnel expenses. Personnel expenses in the first three quarters 2008 include expenses of 0.4 million EUR with respect to share options issued under the outstanding share option schemes. Personnel expenses rose by 2.6 million EUR against the first three quarters 2007. Such increase mainly related to new recruitments in connection with the expansion of the Arnstadt production plant, extended research activities and new recruitments in the distribution area. A total of 95 employees were newly hired in the first nine months of 2008.

4. 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.

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

6. Interest income/expenses. This item included interest income in the amount of 0.2 million EUR. Interest and similar expenses amounted to -1.0 million EUR. The increase in interest expenses was primarily due to the expansion of the Arnstadt production plant. Interest expenses also included additional expenses pursuant to IFRS relating to the debt component of the convertible bonds as well as the transaction costs incurred in connection with the issue of the convertible bonds.

7. Taxes on income. Taxes on income included the full amount of deferred taxes pursuant to IAS 12. The determination of deferred taxes was based on a tax rate of 28.25 percent.

8. Consolidated net income/loss. Consolidated net income of 0.9 million EUR was reported as of 30 September 2008.

E. Changes in shareholders' equity.

Changes in the Company's shareholders' equity during the period under review are set forth in the table „Changes in shareholders' equity“.

F. Earnings per share

	01 - 09/2008	01 - 09/2007
Result for the period / € million	0.9	0.9
Number of shares (weighted)	11,458,135	11,288,257
Earnings per share / €	0.08	0.08

The figures presented correspond to the 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 relevant figures are presented in accordance with IAS 33.

G. 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.

H. Subsequent events

On 17 October 2008, the Supervisory Board of Sunways AG appointed Mr. Jörg von Strom a Management Board member as of 1 November 2008. As Chief Operating Officer (COO), von Strom will in particular be responsible for the market supply, procurement and production divisions. Management Board member Ralph Kienzler resigned as of 31 October 2008 from his office as a member of the Management Board of Sunways AG.

On 5 November 2008, Sunways AG announced a restructuring and expansion of the Management Board. Roland Burkhardt, the founder and current CEO of Sunways AG, will hand over the position of chairman of the Management Board and the Company's management to CFO Michael Wilhelm as of 1 January 2009. Wilhelm will be in charge of both the finance and strategy areas in the future. Roland Burkhardt will assume responsibility for the technology as well as the research and development divisions. This reassignment of Management Board responsibilities sponsored by Roland Burkhardt will not in any way affect the ownership structure of Sunways AG. Furthermore, the Supervisory Board appointed Mr. Jürgen Frei as Management Board member in charge of the newly created distribution and marketing division as of 17 November 2008. Together with recently appointed COO Jürg von Strom, the Management Board of Sunways AG will thus be composed of four members.

I. Related-party transactions

There were no major related-party transactions in the past reporting period.

