

CORPORATE GOVERNANCE REPORT/CORPORATE GOVERNANCE STATEMENT PURSUANT TO § 289A OF THE GERMAN COMMERCIAL CODE (HGB).

Corporate governance at Sunways AG as a listed German stock corporation is primarily subject to the German Stock Corporation Act (AktG) and, in addition, the specifications in the German Corporate Governance Code, as amended (Deutscher Corporate Governance Kodex – the “Code”). The Company's executive bodies are the general meeting, the Management Board and the Supervisory Board. The tasks and rights of the Company's bodies are concretized to the extent permissible by law in the Company's articles of incorporation. The executive bodies' internal procedures and decision-making processes are regulated in more detail by rules of procedure. By resolution of the Company's Supervisory Board, rules of procedure for the Supervisory Board and Management Board have been adopted.

No resolution has been passed by general meeting on any rules of procedure for the general meeting pursuant to § 129 subparagraph 1 AktG as the statutory stipulations and the provisions of the articles of incorporation in this respect are deemed adequate by the Management Board and Supervisory Board.

According to the statutory provisions, Sunways AG is subject to the so-called dual management system. One of the main features of this system is that there is a clear distinction, also in terms of staffing, between the Management Board as an executive committee and the Supervisory Board as a controlling body. The Management Board and Supervisory Board cooperate closely in the Company's best interest.

The shareholders of Sunways AG exercise their co-determination and control rights at the general meeting to be held at least once every year. The general meeting decides on all matters provided for by law. Each share carries one vote on any voting activity. Each shareholder who has in due time signed in is entitled to participate in the general meeting. Shareholders unable to participate in person can have their voting right exercised by a credit institution, a shareholders association, the proxy holders bound by instruction and designated by Sunways AG or any other representative they may choose.

Trustful cooperation of the Management Board und Supervisory Board.

Sunways AG is a stock corporation under German law and, therefore, has a dual management structure comprising a Management Board and Supervisory Board. For the Company's benefit, both boards cooperate closely and maintain an open and trustful communication. The Management Board directly involves the Supervisory Board in any significant decisions.

Management Board. The Management Board of Sunways AG is composed of four members. As the stock corporations executive committee, it manages the Companies operations and is committed to safeguarding the Company's interests as well as to its strategic principles. The Management Board informs the Supervisory Board on a regular basis, promptly and in detail of significant business transactions as well as the current earnings situation, including risks and risk management. Any deviation of the actual course of operations from previously established plans and targets are commented in detail by the Management Board, specifying the reasons therefor. In addition, the Management Board provides regular reports on internal compliance matters.

The Management Board manages the Company on its own responsibility in accordance with the principle of overall responsibility, i. e. the Management Board members are jointly responsible for all management activities. Major tasks of the Management Board are to develop and implement the Company's strategy, the Company's management, financial planning as well as establishing and ensuring efficient risk management and controlling. On this basis, the Management Board determines long-term goals and the principles and guidelines for corporate policies derived therefrom. The principles governing the Management Board's cooperation and decision-making processes are set forth in the rules of procedure of the Management Board. These relate in particular to the rules for the assignment of responsibilities, matters to be addressed by the entire Management Board, details of the decision-making process and the preparation of Management Board meetings as well as the rights and duties of the chairman of the Management Board. Details in relation to individual responsibilities are set forth separately in the schedule of responsibilities.

Supervisory Board. The main task of the Supervisory Board is to monitor and give advice to the Management Board. The Supervisory Board of Sunways AG is currently composed of three members elected by the general meeting in accordance with §§ 95, 96 subparagraph 1, 101 subparagraph 1 AktG in conjunction with § 8 subparagraph 1 of the articles of incorporation.

The members of the Supervisory Board are independent; none of its members is a Management Board member whose appointment ended less than two years ago. The Supervisory Board monitors and gives advice to the Management Board on a regular basis with respect to its management activities. Talks between the Supervisory Board and Management Board on a regular basis also include discussions relating to the Company's strategic alignment and the current progress of the implementation of strategies. The Supervisory Board is also responsible for the appointment and dismissal of the Management Board members and, together with the Management Board, for long-term replacement planning. The Supervisory Board determines the compensation of Management Board members and reviews the compensation system at regular intervals. Adopting the annual financial statements is also one of its core tasks. If necessary, the Supervisory Board also convenes meetings without the Management Board.

The principles relating to the cooperation and decision-making processes within the Supervisory Board are set forth in the Supervisory Board's rules of procedure. Due to the limited number of Supervisory Board members, no committees were established. Furthermore, the Management Board's rules of procedure include a list of transactions for which the Management Board is required to obtain the Supervisory Board's consent. The Supervisory Board's rules of procedure contain details relating to the preparation of meetings and the decision-making process of the Supervisory Board.

Compliance statement of Sunways AG pursuant to § 161 AktG and discussion of deviations from the recommendations of the Code.

Sunways AG believes that a responsible and transparent corporate governance forms the basis of long-term sustainable entrepreneurial success. The Management Board and Supervisory Board of Sunways AG jointly made the following statement pursuant to § 161 AktG, taking into account the amendments to the Code as of 18 June 2009:

1. In the future, Sunways AG will comply with all recommendations of the “Government Commission on the German Corporate Governance Code,” as amended on 18 June 2009, with the following exceptions:

Item 3.8 of the Code: Deductible with respect to D&O insurance for the Management Board and Supervisory Board.

“If the company takes out a D&O (directors’ and officers’ liability insurance) policy for the Management Board, a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member must be agreed upon. A similar deductible must be agreed upon in any D&O policy for the Supervisory Board.”

The Company will comply only with this recommendation as from 1 July 2010 and only with respect to the Management Board as the existing insurance policies are presently being amended. Up to that date, the statutory transition regulations will apply. This deviation thus is due to the period of time required to amend the contracts.

The D&O insurance for the Supervisory Boards members does not provide for any deductible and no such deductible is expected to be agreed upon in the future. The Company believes that a deductible will not constitute an additional incentive for the Supervisory Board members to duly perform their activities in accordance with the provisions of law.

Item 4.2.3 of the Code: Compensation structure for the Management Board and severance pay.

“... The compensation structure must be oriented toward sustainable growth of the enterprise. The monetary compensation elements shall comprise fixed and variable elements. The Supervisory Board must make sure that the variable compensation elements are in general based on a multi-year assessment. Both positive and negative developments shall be taken into account when determining variable compensation components. All compensation components must be appropriate, both individually and in total, and in particular must not encourage to take unreasonable risks. ...”

At present, the Company does not meet this specification. The compensation provisions in the current agreements with Management Board members are, in the opinion of the Supervisory Board, appropriate and do not encourage to take unreasonable risks. Variable compensation elements are presently not based on a multi-year assessment; negative developments were not taken into account in the determination of variable compensation components. This recommendation is not complied with at present; a potential modification of existing agreements with Management Board members is currently under review.

“... In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years’ compensation (severance pay cap) and compensate no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year. ...”

The Supervisory Board has not entered into any agreements with Management Board members with respect to premature termination of their appointment without serious cause and does not intend to do so in the future. Thus the statutory provisions apply. In the opinion of the Company, the statutory provisions ensure an adequate reconciliation of mutual interests and thus form an appropriate basis in case of a Management Board member's premature resignation.

Item 4.2.4 of the Code: Disclosure of the compensation of individual Management Board members.

"The total compensation of each one of the members of the Management Board is to be disclosed by name, divided into fixed and variable compensation components. The same applies to promises of benefits that are granted to a Management Board member in case of premature or statutory termination of the function of a Management Board member or that have been changed during the financial year. Disclosure may be dispensed with if the General Meeting has passed a resolution to this effect by three-quarters majority."

On 23 May 2006, the general meeting of Sunways AG passed a resolution by three-quarters majority to the effect that the compensation of Management Boards members is not to be disclosed on an individual basis. Also any commitments made or changed during the fiscal year with respect to payments to be granted to a Management Board member in the event of any premature or statutory termination of his appointment are not intended to be disclosed on an individual basis.

The Company believes that adequate account is taken of legitimate information requirements by publishing the total amount of remunerations to the Management Board as well as a summary of existing commitments in relation to termination. In this context, the Company is of the opinion that the right of privacy of individual Management Board members should also be adequately taken into account when deciding on a disclosure of individual data.

Item 5.3 of the Code: Establishment of committees.

The entire item 5.3 of the Code is not applied. In view of the limited number of Supervisory Board members, Sunways AG generally does not establish any committees. This approach ensures the efficiency and full information of all Supervisory Board members. The Company believes that all Supervisory Board members should at all times be involved in the decisions of the Supervisory Board.

Items 5.4.6 and 5.4.7 of the Code: Supervisory Board compensation and disclosure thereof.

"Members of the Supervisory Board shall receive fixed as well as performance-related compensation. Performance-related compensation should also contain components based on the long-term performance of the enterprise. ...

The compensation of the members of the Supervisory Board shall be reported individually in the corporate governance report, subdivided according to components. Also payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services shall be listed separately on an individual basis in the corporate governance report."

The Supervisory Board members of Sunways AG do not receive any performance-related remuneration (Item 5.4.6 of the Code). The Company believes that additional incentives in the form of variable pay elements that, in practice, in most cases have resulted in a marked increase in the overall amount of Supervisory Board remunerations at other companies and thus in higher expenses for the relevant enterprise would put the Company at a disadvantage compared to the current fixed remuneration. This approach also helps avoid conflicts of interest in the context of monitoring activities.

The compensation of Supervisory Board members and any remuneration for services rendered are not specified on an individual basis in the corporate governance report (Item 5.4.7 of the Code).

In view of the limited number of Supervisory Board members, the publication of the total amount of fees paid for consultancy services ensures sufficient transparency. In this respect as well, the Company believes that the protection of the individual Supervisory Board members' privacy outweighs the need for greater transparency and further details.

Item 7.1.2 of the Code: Publication of financial reports.

The consolidated annual financial statements and interim financial statements are published exclusively in conformity with statutory timing requirements. (Item 7.1.2 of the Code). The Company is of the opinion that the statutory provisions ensure the adequate and timely information of shareholders.

2. Since the last compliance statement dated 12 March 2009, Sunways AG has complied with all recommendations of the Government Commission on the German Corporate Governance Code during the period from 12 March 2009 to 4 August 2009 (the Code, as amended on 6 June 2008) and during the period from 5 August 2009 to the date hereof (the Code, as amended on 18 June 2009), with the following exceptions:

Item 3.8 of the Code: Deductible with respect to D&O insurance for the Management Board and Supervisory Board.

"If the company takes out a D&O (directors' and officers' liability insurance) policy for the Management Board, a deductible of at least 10 % of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member must be agreed upon. A similar deductible must be agreed upon in any D&O policy for the Supervisory Board."

The Company will comply only with this recommendation as from 1 July 2010 and only with respect to the Management Board as the existing insurance policies are presently being amended. Up to that date, the statutory transition regulations will apply. This deviation thus is due to the period of time required to amend the contracts.

The D&O insurance for the Supervisory Boards members does not provide for any deductible and no such deductible is expected to be agreed upon in the future. The Company believes that a deductible will not constitute an additional incentive for the Supervisory Board members to duly perform their activities in accordance with the provisions of law.

Item 4.2.3 of the Code: Compensation structure for the Management Board and severance pay.

"... The compensation structure must be oriented toward sustainable growth of the enterprise. The monetary compensation elements shall comprise fixed and variable elements. The Supervisory Board must make sure that the variable compensation elements are in general based on a multi-year assessment. Both positive and negative developments shall be taken into account when determining variable compensation components. All compensation components must be appropriate, both individually and in total, and in particular must not encourage to take unreasonable risks. ..."

At present, the Company does not meet this specification. The compensation provisions in the current agreements with Management Board members are, in the opinion of the Supervisory Board, appropriate and do not encourage to take unreasonable risks. Variable compensation elements are presently not based on a multi-year assessment; negative developments were not taken into account in the determina-

tion of variable compensation components. This recommendation is not complied with at present; a potential modification of existing agreements with Management Board members is currently under review.

“... In concluding Management Board contracts, care shall be taken to ensure that payments made to a Management Board member on premature termination of his contract without serious cause, including fringe benefits, do not exceed the value of two years’ compensation (severance pay cap) and compensate no more than the remaining term of the contract. The severance payment cap shall be calculated on the basis of the total compensation for the past full financial year and if appropriate also the expected total compensation for the current financial year. ...”

The Supervisory Board has not entered into any agreements with Management Board members with respect to premature termination of their appointment without serious cause and does not intend to do so in the future. Thus the statutory provisions apply. In the opinion of the Company, the statutory provisions ensure an adequate reconciliation of mutual interests and thus form an appropriate basis in case of a Management Board member’s premature resignation.

Item 4.2.4 of the Code: Disclosure of the compensation of individual Management Board members.

“The total compensation of each one of the members of the Management Board is to be disclosed by name, divided into fixed and variable compensation components. The same applies to promises of benefits that are granted to a Management Board member in case of premature or statutory termination of the function of a Management Board member or that have been changed during the financial year. Disclosure may be dispensed with if the General Meeting has passed a resolution to this effect by three-quarters majority.”

On 23 May 2006, the general meeting of Sunways AG passed a resolution by three-quarters majority to the effect that the compensation of Management Boards members is not to be disclosed on an individual basis. Also any commitments made or changed during the fiscal year with respect to payments to be granted to a Management Board member in the event of any premature or statutory termination of his appointment are not intended to be disclosed on an individual basis.

The Company believes that adequate account is taken of legitimate information requirements by publishing the total amount of remunerations to the Management Board as well as a summary of existing commitments in relation to termination. In this context, the Company is of the opinion that the right of privacy of individual Management Board members should also be adequately taken into account when deciding on a disclosure of individual data.

Item 5.3 of the Code: Establishment of committees.

By resolution of the general meeting of Sunways AG on 17 June 2009, the number of Supervisory Board members was reduced from six to three. In view of the limited number of Supervisory Board members, Sunways AG generally has not established any committees since the Supervisory Board’s downsizing. The entire item 5.3 of the Code has not been applied since that date. This approach ensures the efficiency and full information of all Supervisory Board members. The Company believes that all Supervisory Board members should at all times be involved in the decisions of the Supervisory Board.

Items 5.4.6 and 5.4.7 of the Code: Supervisory Board compensation and disclosure thereof.

“Members of the Supervisory Board shall receive fixed as well as performance-related compensation. Performance-related compensation should also contain components based on the long-term performance of the enterprise. ...”

The compensation of the members of the Supervisory Board shall be reported individually in the corporate governance report, subdivided according to components. Also payments made by the enterprise to the members of the Supervisory Board or advantages extended for services provided individually, in particular, advisory or agency services shall be listed separately on an individual basis in the corporate governance report.”

The Supervisory Board members of Sunways AG do not receive any performance-related remuneration (Item 5.4.6 of the Code). The Company believes that additional incentives in the form of variable pay elements that, in practice, in most cases have resulted in a marked increase in the overall amount of Supervisory Board remunerations at other companies and thus in higher expenses for the relevant enterprise would put the Company at a disadvantage compared to the current fixed remuneration. This approach also helps avoid conflicts of interest in the context of monitoring activities.

The compensation of Supervisory Board members and any remuneration for services rendered are not specified on an individual basis in the corporate governance report (Item 5.4.7 of the Code).

In view of the limited number of Supervisory Board members, the publication of the total amount of fees paid for consultancy services ensures sufficient transparency. In this respect as well, the Company believes that the protection of the individual Supervisory Board members’ privacy outweighs the need for greater transparency and further details.

Item 7.1.2 of the Code: Publication of financial reports.

The consolidated annual financial statements and interim financial statements are published exclusively in conformity with statutory timing requirements. (Item 7.1.2 of the Code). The Company is of the opinion that the statutory provisions ensure the adequate and timely information of shareholders.

Risk management and corporate governance practices.

The responsible management of business-related risks is one of the principles of good corporate governance. Company-specific reporting and control systems are available to the Management Board and executives of Sunways AG, enabling them to record, assess and control risk. These systems are improved and adjusted to changing framework conditions on an ongoing basis. The Management Board informs the Supervisory Board of any existing risks and their development on a regular basis. The Supervisory Board in particular engages in monitoring the accounting process, including the financial reporting system, the efficiency of the internal control system, risk management activities and the internal auditing system, compliance as well as the audit of the financial statements.

Details relating to risks management activities are set forth in the report on accounting-related internal control and risk management system [see annual report 2009, page 71].

Sunways AG informs capital market participants and the general public promptly, regularly and simultaneously of the Group’s economic situation and new circumstances. The annual report, semi-annual financial statements as well as interim reports for each quarter are published within the periods stipulated. Notification of current events and recent developments occurs via press releases or ad-hoc notifications, as the case may be.

Remuneration report.

The Code specifies benchmarks for the compensation structures of the Management Board and Supervisory Board pursuant to which the remuneration shall comprise fixed as well as variable components. The variable components shall be closely linked to the Company's success and thus constitute a long-term incentive.

The remuneration of the Management Board of Sunways AG includes variable components linked to performance and results. The Supervisory Board receives a fixed remuneration. For further motivation, the share option plans constitute an additional remuneration instrument for executives and Management Board members of Sunways AG.

Management Board. In the fiscal year 2009, the Management Board was composed of:

- Michael Wilhelm, business graduate (Dipl.-Kaufmann), Karben (Germany), Chairman
- Roland Burkhardt, graduate engineer (Dipl.-Ingenieur – FH), Kreuzlingen (Switzerland)
- Jörg von Strom, graduate engineer (Dipl.-Ingenieur) and MBA, Konstanz (Germany)
- Jürgen Frei, business economist (Betriebswirt – VWA), Waiblingen (Germany)

The remuneration paid to the Management Board comprises a non-performance-related component paid on a monthly basis (fixed salary) as well as a performance-related component. The Supervisory Board regularly reviews the structure of the Management Board's compensation system.

Total remunerations to the Management Board in the reporting period amounted to k€ 2,100 (2008: k€ 590), consisting of fixed salaries of k€ 940 (2008: k€ 510) and other benefits in the amount of k€ 72 (2008: k€ 30). Performance-related remuneration components in the past fiscal year amounted to k€ 1,088 (2008: k€ 50). Resigned Management Board members received remunerations of k€ 145 (2008: k€ 24). A total of 24,168 share options were allocated to Management Board members in the year under review under the Long Term Incentive Plan adopted by the general meeting in 2006. All Management Board members receive fringe benefits in the form of accident and D&O insurance costs and a company car which may also be used for private purposes. In addition, work-related expenditures, costs and out-of-pocket expenses are reimbursed. Management Board members also receive health insurance and pension allowances.

Supervisory Board. Members of the Supervisory Board in the fiscal year 2009 were:

- Otto Mayer, graduate engineer (Dipl.-Ingenieur – FH), Chairman, entrepreneur, Tübingen (Germany)
- Andreas Görwitz, business graduate (Dipl.-Betriebswirt – FH), Konstanz (Germany)
- Dr. jur. Roland R. Bahr, attorney at law, Radolfzell (Germany) – until 17 June 2009
- Dr. Christian Bosse, attorney at law, Stuttgart (Germany) – until 31 March 2009
- Thomas Nordmann, entrepreneur, Erlenbach (Switzerland)
- Frank Wehking, business graduate (Dipl.-Kaufmann), Hofheim/Taunus (Germany) – until 31 May 2009

The provisions relating to remunerations to Supervisory Board members were revised by the ordinary general meeting on 17 June 2009. In addition to the reimbursement of his expenses, every Supervisory Board member receives an annual remuneration of € 24,000 after the end of each fiscal year. The chairman receives twice that amount, the deputy chairman one and a half times that amount.

Furthermore, each Supervisory Board member receives an attendance fee of € 1,500 per meeting. If the term of office of any member has started or ended during a fiscal year, the abovementioned annual remuneration will be reduced on a pro rata temporis basis. These provisions will apply to the fiscal year 2009 on a pro rata basis as from the date of registration of this modification to the articles of incorporation. In the year under review, total remunerations paid to the Supervisory Board members amounted to € 169,000 (2008: € 113,000). The Supervisory Board members receive a fixed remuneration. In addition, one Supervisory Board member received a fee for consultancy services in the amount of € 25,000 in 2009 (2008: € 25,000).

Agreements with Management Board members with respect to a change of control. With the exception of Mr. Roland Burkhardt, the Management Board members are entitled to an extraordinary termination of their employment as of the end of any month and to retire from their office as Management Board members at three months' notice if there is any change in the Company's control. Such change of control occurs when one or more external shareholders acting in concert acquire a majority of voting rights in Sunways AG and exert a controlling influence, Sunways AG becomes a controlled company by entering into a contract between business enterprises within the meaning of § 291 of the Stock Corporation Act (AktG) or upon the merger of Sunways AG into another enterprise.

In the event of such an extraordinary termination, the relevant Management Board member will receive a non-recurrent severance payment equal to the remuneration still due to him up to the end of the contract term, but no more than two fixed annual salaries; such severance payment is payable in one amount within four weeks from termination of the contract and irrespective of the length of service of the relevant Management Board member.

Employee participation. For further motivation and long-term retention of qualified employees, Sunways AG established employee share option plans in 2000, 2006 and 2009. For relevant details, reference is made to the annual report 2009, pages 146 et seq.

Directors' dealings – information on transactions of executives pursuant to § 15a of the Securities Trading Act (WpHG). Pursuant to § 15a WpHG, persons performing executive tasks with an issuer of shares and any persons closely related to such a person have to inform the issuer and the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht - BaFin) within five working days of any transactions for their own account involving the issuer's shares or any financial instruments relating to such shares to the extent that the total amount of such transactions exceeds € 5,000 by the end of the calendar year. Such communications have to be published by the Company without delay over a period of one month. In the fiscal year 2009, the following transactions were reported to the Company:

SHARE OF SUNWAYS AG – ISIN DE 0007332207

Date	Name	Transaction
31/03/2009	Jürgen Frei (Management Board)	Purchase of 1,500 shares at € 1.74 per share (total volume € 2,610), Frankfurt Stock Exchange

Shares in the Company and financial instruments relating thereto held by members of executive bodies as of 31 December 2009. As of 31 December 2009, Management Board and Supervisory Board members held the following shares in the Company and financial instruments relating thereto:

Management Board	Shares	Options
Roland Burkhardt	1,780,345	30,000
Michael Wilhelm, Chairman	2,000	25,501
Jörg von Strom	2,500	1,667
Jürgen Frei	1,500	1,667

Supervisory Board	Shares	Options
Otto Mayer, Chairman	750,000	0
Andreas Görwitz	8,100	0
Thomas Nordmann	6,000	0

Konstanz, March 2010
Sunways AG

The Management Board

The Supervisory Board