

# QUARTERLY REPORT

# Q1 / 2006

January – March 2006

***sunways***  
Photovoltaic Technology

## Sunways AG, Constance

### Notes to the Consolidated Interim Financial Statements (IAS) as of 31 March 2006

#### Highlights

#### 1. Major events of the first quarter 2006:

- markedly positive business development
- sales more than doubled (36.3 million Euro) - EBIT tripled (+0.9 million Euro)
- establishment of Sunways Production GmbH completed
- successful repositioning and expansion of product range
- capital increase successfully placed

**2. Accounting principles.** This quarterly report was prepared in accordance with the International Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB), respectively, and is in conformity with the major accounting principles presented therein. The accounting and valuation principles applied were the same as for the consolidated financial statements for the fiscal year ended on 31 December 2005.

#### Markedly positive business development

**3. Development of business operations.** The business development is extremely positive. Gross performance in the first quarter 2006 rose by 136 percent from 15.4 million Euro (2005) to 36.3 million Euro.

The entire photovoltaics industry continues to be marked by a consistently strong domestic and international demand which exceeds the existing supply by far. At Sunways AG as well the volume of orders received significantly exceeds the available capacity. The actual market growth is still restricted by the shortage of raw material, mainly in the area of solar modules.

In February 2006, Sunways AG entered into an exclusive contract with Webasto on the supply of solar cells for the automotive industry. The exclusive contract with a two-year term relates to the delivery of solar cells to be integrated into car roofs for the automotive industry by Webasto AG. In 2006, this contract will generate a sales volume of approx. 5 million Euro. The quality standards of the automotive industry are the highest with respect to solar cells and relate to dimensional accuracy and consistent color and processing quality. Sunways AG is currently the only company worldwide that delivers solar cells for the automotive industry.

This contract enables Sunways AG to access a promotion-independent market with potential and will permit a substantial growth: at present, the top-range

vehicles of various manufacturers are optionally equipped with solar roofs. Upon insulation, the fan is operated with solar power, cooling the car. It may be assumed that this application will also be offered for mid-range and small cars in the future and that this market will experience a strong development.

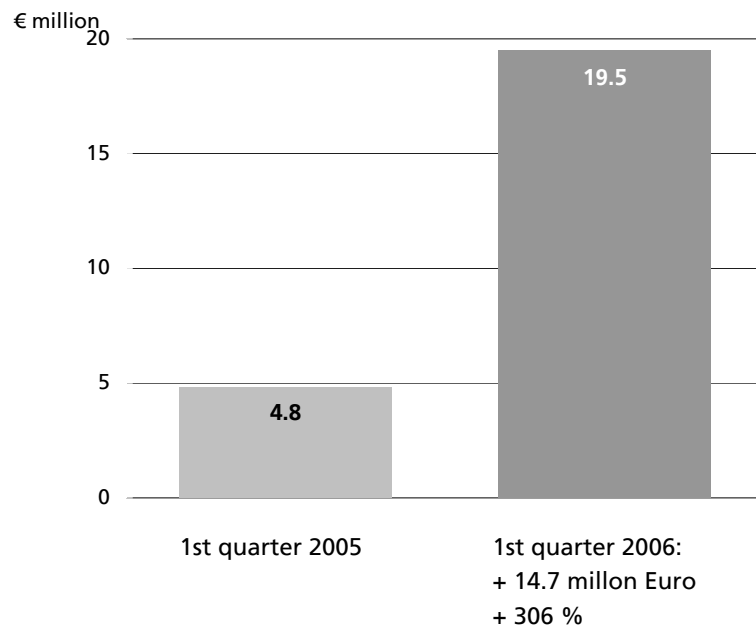
Full capacity utilization at both production plants

**3.1 Solar cells.** Since January 2006, Sunways Production GmbH has been producing around the clock on seven days a week. The manufacturing capacities at the Constance plant are also fully utilized. In the first quarter 2006, demand continued to be in excess of supply.

Due to the positive market situation, sales of our products are secured in the long term. We expect sales of our products to be ensured beyond the year-end 2006.

### Sales

Quarterly comparison: sales quadrupled



From January to March 2006, sales more than quadrupled to 19.5 million Euro against the comparable prior year period (prior year: 4.8 million Euro).

The rise in sales was mainly the result of optimizations of our Constance production plant and the commissioning of our new production plant in Arnstadt. After the start-up phase from September to December 2005, the solar cell production unit of Sunways Production GmbH has been working around the clock on seven days a week since January 2006. We will continuously increase the output through further optimizations.

About 19 percent of solar cell sales in the first quarter 2006 were generated abroad (prior year: approx. 8 percent). Domestic demand continues to be strong.

**Price development.** In the present market situation, we are confronted with different price levels in the various export countries and are considering corresponding distribution measures.

**Production.** Upon commissioning the Arnstadt production plant, Sunways AG almost tripled its production capacity from 16 MW to 46 MW. The formerly achieved economies of scale were reduced in the first quarter 2006 as a result of the rise in raw material prices.

The production output in the first quarter 2006 was 6.9 MW (prior year: 2.2 MW).

Repositioning finalized

After the scheduled start-up of the new production plant and the completed flexibilization of our Constance manufacturing unit, we restructured our company: at the Constance plant, we produce "high-tech made to measure" according to individual customer specifications. We can respond to specific customer demands in the short term and produce various cell formats. In Constance, mainly transparent and colored solar cells are produced in different formats. In addition, solar cells for the automotive industry are manufactured at the Constance production unit. The Arnstadt solar cell plant, on the other hand, produces „high-tech in series“ - high-quality standard solar cells with high efficiency rates. This product organization supports long-term customer loyalty and the approach of promotion-independent target groups. In addition, all administrative expenses as well as research and development costs are matched by a substantially higher production output.

The average efficiency rate of solar cells from multicrystalline silicon was about 14.7 percent. At present, top efficiency rates of up to 16 percent are achieved. Our mono-crystalline solar cells have efficiency rates of up to 17 percent and thus continue to hold a leading position in technology.

**Technology.** In view of the silicon shortage, the focus of our research and development activities continues to be on two cost-related aspects: minimizing raw materials usage through the utilization of the thinnest possible wafers and increasing the efficiency rate.

The cooperation agreement with Unaxis AG, Liechtenstein, entered into in May 2005 will be continued as planned. The goal is to jointly develop a production unit for the manufacture of solar cells based on the thin-film technology within two years. By entering into the field of thin-film technology, we will expand our product range. In addition, substantially less silicon and a smaller number of process steps are required for the production of thin-film solar cells than for manufacturing mono- and multicrystalline solar cells. Thus the production cost can be reduced. Some of the milestones set have not yet been reached, but the first project results have confirmed the feasibility as well as the time scheduled determined by us.

Continuously strong demand

**Investments.** Investments in the solar cell division in the past quarter amounted to 1.0 million Euro and mainly related to the further establishment of Sunways Production GmbH.

**3.2 Solar systems and projects.** As expected, the solar systems and projects division was marked by strong demand in the first quarter 2006 which resulted in a further shortage of quality modules worldwide. This, in turn, resulted in quotas for Sunways Solar Modules being allocated to our customers.

Expanded product range – restructured distribution organization

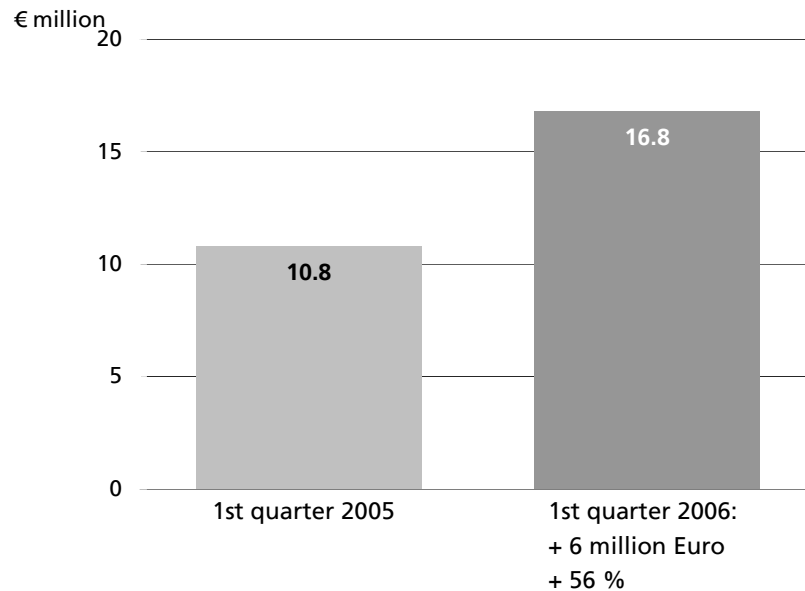
**Expansion of distribution organization.** On 01 January 2006, we initiated the development of an internal distribution organization for photovoltaic systems and the expansion of our product range to include solar modules. Prior to that date, the new Sunways Solar Module with integrated Sunways Solar Cells had been distributed under the name of „MHH plus“ by the Sunways subsidiary MHH Solartechnik GmbH. From 2002 onwards, solar cells produced by Sunways have been embedded in the „MHH plus“ modules according to the specifications of our subsidiary MHH. The product features, tight performance tolerances and high energy output triggered a broad interest within a short period of time and formed the basis of the module's great success. While MHH will in the future focus more strongly on the distribution of modules and components from other manufacturers and continue to offer the Sunways Solar Inverter, Sunways AG has been distributing the modules incorporating Sunways Solar Cells on its own since January 2006.

We expect this restructuring to strengthen the customer and supplier relations of Sunways and MHH and to support the expansion of our market position: customers will increasingly be supplied with the ‚Sunways‘ brand, also in the area of system technology. Customers can now buy complete photovoltaic systems with Sunways products that are perfectly adapted to each other and generate the best possible yield with their systems.



**Sales**

Quarterly comparison:  
rise in sales by 56 percent



Excellent order position

We further expanded our system and project business. In the first three months 2006, sales in this division rose by 56 percent against the prior year to 16.8 million Euro (prior year: 10.8 million Euro). We generated 96 percent (prior year: 95 percent) of such sales in Germany.

The development of our distribution office in Barcelona was very good: in the area of solar inverters, we increased our international sales in Spain and Italy and achieved a market share of approx. 13 percent in the first quarter. Due to the current module shortage, the focus is on the distribution of our Sunways Solar Inverters.

Quality seal for  
Sunways Solar Modules

In May this year, our Sunways Solar Modules received an award from the German Consumer Agency Stiftung Warentest. The institution selected 15 solar modules throughout the market with capacities up to 210 W. The Sunways module SM 170U received the quality rating 1.9 (GOOD) and was declared test winner. This result confirms the quality and performance of our product: the module was convincing in all test categories and accurately matched the description in the prospectus – from the generation of electricity through durability to safety, documentation and installation.

**Price development.** In the period under review, prices for solar modules remained relatively stable. The upper price limit accepted by the German market seems to have been reached. We will seek to expand our sales activities abroad as far as possible.

Excellent market acceptance of further developments and supplementary products

**Production of new generation of solar inverters.** The new version of our Solar Inverter NT family available since the second quarter 2005 with an expanded voltage range of 350 to 850 Volt was very well received by the market. It is perfectly adapted to solar cells of a 156 x 156 mm format.

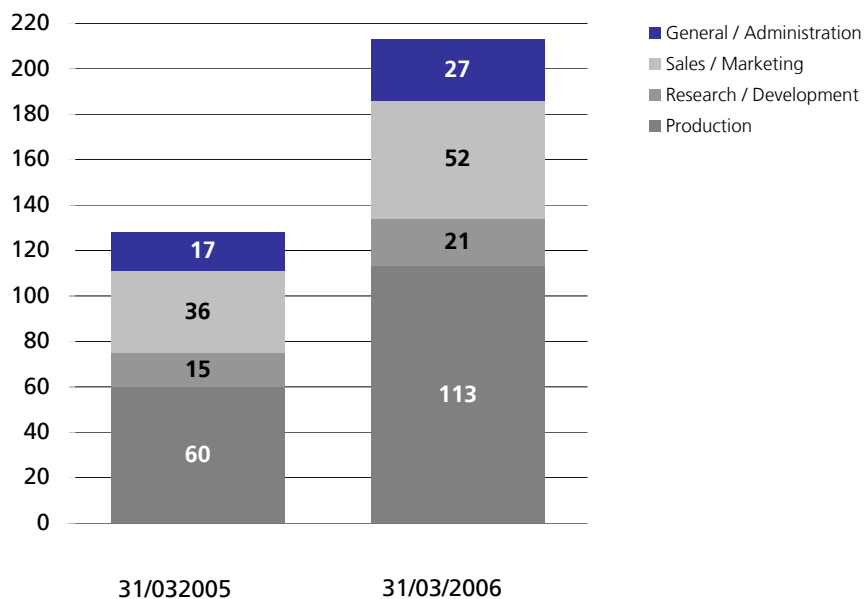
We have been offering the Sunways Solar Inverter NT 10000 since October 2005. The device may be used in photovoltaic systems with a capacity of 10 kW and more and corresponds to the increasing size of photovoltaic systems and customers' wishes for more efficiency and easy-to-handle large solar inverters. The demand for this product was significantly stronger than we expected. The device was very well received by the market, primarily in Spain.

"sunways on tour 2005/2006" successfully continued

Within the framework of our campaign for dealers of Sunways Solar Inverters started in September 2005, "sunways on tour 2005/2006", we again held workshops for dealers and installers of Sunways Solar Inverters in Constance in the first quarter 2006. Due to the strong demand for these events, we added further dates to our schedule for the current year.

**Investments.** No significant investments were made in the first quarter 2006.

**5. Personnel and social matters.** As of 31 March June 2006, the Sunways Group employed a staff of 223 (as of 31 March 2005: 128). The increase in the number of employees was due to the Constance-based module distribution organization and the recruitments of Sunways Production GmbH. The break-down of employees by functions was as follows:



**6. Sales and Result.** In the first three months of 2006, sales of 36.3 million Euro were generated, i.e. more than twice the amount of the prior year (2005: 15.4 million

Euro).

During the same period, EBIT more than tripled against the prior year and amounted to +0.9 million Euro (prior year: +0.3 million Euro). EBITDA amounted to +1.9 million Euro (prior year: +0.7 million Euro). As a result, the consolidated net income was +0.4 million Euro (prior year: 0.0 million Euro).

Undiluted earnings per share (basic earnings per share in accordance with IAS 33) amounted to 0.04 Euro (prior year: 0.00 Euro) at the end of the first quarter. Diluted earnings equal the undiluted earnings.

**7. Segment reporting.** For purposes of the following segment reporting, the Company's operations are divided into two major divisions: solar cells (development, production and distribution of solar cells) and solar systems and projects (development, production and distribution of inverters as well as distribution of and project management for solar systems).

	1st quarter 2006				1st quarter 2005			
	Solar cells	Solar systems	Consol.	Total	Solar cells	Solar systems	Consol.	Total
	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €	Millions of €
Sales	19.5	16.8	0.0	36.3	4.8	10.8	-0.2	15.4
EBITDA	0.5	+1.4		+1.9	-0.1	+0.8		+0.7
Depreciation and amortization	-0.9	-0.1		-1.0	-0.3	-0.1		-0.4
EBIT	-0.4	+1.3		+0.9	-0.4	+0.8		+0.3

(Rounding differences possible)

**Sunways AG, Constance**  
**Consolidated Balance Sheet**  
**as of 31 March 2006**

	31/03/2006	31/12/2005
	Millions of €	Millions of €
<b>Assets</b>		
<b>Current assets</b>		
Liquid funds	13.0	2.3
Marketable securities	0.5	0.5
Trade receivables	8.5	6.5
Inventories	12.9	12.9
Prepayments and accrued income and other current assets	13.0	12.6
<b>Total current assets</b>	<b>47.9</b>	<b>34.8</b>
Tangible fixed assets	33.3	33.0
Intangible assets	1.5	1.6
Goodwill	0.2	0.2
Deferred taxes	3.5	3.5
<b>Total assets</b>	<b>86.6</b>	<b>73.2</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term loans and current portion of long-term loans	2.0	3.9
Trade payables	9.1	10.7
Prepayments received	0.0	0.1
Provisions	1.5	1.6
Other current liabilities	3.0	3.3
<b>Total current liabilities</b>	<b>15.6</b>	<b>19.6</b>
<b>Long-term liabilities</b>		
Bonds	9.7	9.7
Long-term loans	14.2	15.7
Deferred taxes	0.7	0.7
<b>Total long-term liabilities</b>	<b>24.6</b>	<b>26.1</b>
<b>Deferred investment grants</b>	<b>10.6</b>	<b>10.7</b>
<b>Shareholders' equity</b>		
Subscribed capital	10.6	9.6
Capital reserve	32.9	15.2
Accumulated profit/loss	-7.7	-8.1
<b>Total shareholders' equity</b>	<b>35.8</b>	<b>16.7</b>
<b>Total liabilities and shareholders' equity</b>	<b>86.6</b>	<b>73.2</b>

(Rounding differences possible)

## Sunways AG, Constance Consolidated Income Statement for the Fiscal Year 2006

	01/01 – 31/03/2006	01/01 – 31/03/2005
	Millions of €	Millions of €
Sales	36.3	15.4
Changes in inventories of finished and unfinished goods	-0.6	0.0
<b>Gross performance</b>	<b>35.7</b>	<b>15.4</b>
Other operating income	0.4	0.0
Cost of materials	-29.8	-12.1
Personnel expenses	-2.4	-1.4
Depreciation and amortization	-1.0	-0.4
Other operating expenses	-2.0	-1.2
<b>Operating result (EBIT)</b>	<b>0.9</b>	<b>0.3</b>
Interest income/expenses	-0.3	-0.3
<b>Result before taxes</b>	<b>0.6</b>	<b>0.0</b>
Taxes on income	-0.2	0.0
<b>Consolidated net income/loss</b>	<b>0.4</b>	<b>0.0</b>
Earnings per share in € (consolidated net income/loss : number of shares; diluted = undiluted)	<b>0.04</b>	<b>0.00</b>
Average number of shares outstanding (Rounding differences possible)	10,086,738	9,514,070

## Sunways AG, Constance Consolidated Cash-Flow Statement for the Fiscal Year 2006

	01/01 – 31/03/2006	01/01 – 31/03/2005
	Millions of €	Millions of €
<b>Operating activities</b>		
Operating result	0.9	0.3
Income tax receivable/payable (-)	-0.2	0.0
Depreciation and amortization	1.0	0.4
Income and expenses not affecting cash-flow	-0.1	0.0
<b>Operating result before changes in net current assets</b>	<b>1.6</b>	<b>0.7</b>
<b>Changes in assets and liabilities:</b>		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	-2.5	-2.1
Increase (-)/decrease in inventories	0.0	-2.5
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	-2.3	0.7
<b>Cash provided by operating activities</b>	<b>-3.2</b>	<b>-3.1</b>
<b>Investment activities</b>		
Purchase of fixed assets	-1.1	-8.1
<b>Cash used for investment activities</b>	<b>-1.1</b>	<b>-8.1</b>
<b>Financing activities</b>		
Cash provided by/used for (-) long-term loans	-1.5	-0.3
Cash provided by/used for (-) short-term bank loans	-1.9	-0.1
Contributions to subscribed capital and capital reserves	18.7	0.1
Cash provided by/used for (-) interest	-0.2	-0.1
<b>Cash provided by/used used for (-) financing activities</b>	<b>15.1</b>	<b>-0.3</b>
<b>Net increase/decrease of liquid funds</b>	<b>10.8</b>	<b>-11.5</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>2.7</b>	<b>14.2</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>13.5</b>	<b>2.7</b>
<b>Composition of liquid funds at the end of the reporting period</b>		
Marketable securities	0.5	1.0
+ Cash	13.0	1.7
	<b>13.5</b>	<b>2.7</b>

(Rounding differences possible)

## Sunways AG, Constance Changes in Shareholders' Equity from 01/01 to 31/03/2006

	Subscribed capital Millions of €	Reserves Millions of €	Profit/ loss brought forward Millions of €	Total Millions of €
01 January 2005	9.5	14.7	-8.3	15.9
Changes due to share options pursuant to IFRS 2		0.1	-0.1	0.0
<b>Net income</b>			<b>0.0</b>	<b>0.0</b>
<b>31 March 2005</b>	<b>9.5</b>	<b>14.8</b>	<b>-8.4</b>	<b>15.9</b>
01 January 2005	9.5	14.7	-8.3	15.9
Changes due to share options pursuant to IFRS 2		0.2	-0.1	0.1
Exercise of share options	0.1	0.3		0.4
<b>Net income</b>			<b>0.4</b>	<b>0.4</b>
<b>31 December 2005</b>	<b>9.6</b>	<b>15.2</b>	<b>-8.1</b>	<b>16.7</b>
31 December 2005 / 01 January 2006	9.6	15.2	-8.1	16.7
Capital increase of 16/02/2006 (10 percent)	1.0	17.7		18.7
<b>Net income</b>			<b>0.4</b>	<b>0.4</b>
<b>31 March 2006</b>	<b>10.6</b>	<b>32.9</b>	<b>-7.7</b>	<b>35.8</b>

(Rounding differences possible)

**8. Shareholdings of members of executive bodies.** The following table shows the Sunways shares and share options held by the members of the Management Board and Supervisory Board as of 31 March 2006.

	Shares as of 31/03/2006	Options as of 31/03/2006
<b>Management Board</b>		
Roland Burkhardt	1,740,345	30,000
<b>Supervisory Board</b>		
Dr. Roland R. Bahr, chairman	5,902	
Otto Mayer, deputy chairman	744,000	
Heinz W. Bull	0	
Ernst Haug	3,695	
Thomas Nordmann	0	
Frank Wehking	0	

Currently, 10,578,476 Sunways shares are outstanding.



**Directors' Dealings – information on dealings with executives pursuant to § 15a of the German Securities Trading Act (WpHG).** 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 in the period under review:

Date / name	Transaction
01/03/2006 Dr. Roland R. Bahr (chairman of the Supervisory Board), Radolfzell	Sale to Otto Mayer, member of the Supervisory Board; 4,000 shares at the price of 19.75 Euro per share; total volume: 79,000 Euro; off the floor trading
01/03/2006 Otto Mayer (member of the Supervisory Board), Tübingen	Purchase from Dr. R. Bahr, chairman of the Supervisory Board; 4,000 shares at the price of 19.75 Euro per share; total volume: 79,000 Euro; off the floor trading
16/02/2006 Otto Mayer (member of the Supervisory Board), Tübingen	Sale; reallocation in connection with the capital increase of 16/02/2006; 20,000 shares at the price of 20.00 Euro per share; total volume: 400,000 Euro; trading segment: OTC
15/02/2006 Roland Burkhardt (member of the Management Board), Kreuzlingen	Securities lending to facilitate the implementation of the capital increase of 16/02/2006 by Hypovereinsbank; re-transferred shortly; 951,406 shares; trading segment: OTC
15/02/2006 Roland Burkhardt (member of the Management Board), Kreuzlingen	Securities lending (over-allotment option) in connection with the capital increase of 16/02/2006 with a unilateral call option of Hypovereinsbank upon expiration of the stabilization period; 100,000 shares at the price of 20.00 Euro per share; total volume: 2,000,000 Euro; trading segment: OTC
15/02/2006 Otto Mayer (member of the Supervisory Board), Tübingen	Securities lending (over-allotment option) in connection with the capital increase of 16/02/2006 with a unilateral call option of Hypovereinsbank upon expiration of the stabilization period; 50,000 shares at the price of 20.00 Euro per share; total volume: 1,000,000 Euro; trading segment: OTC

**9. Capital-related measures.** On 16 February 2006, we implemented a 10 % capital increase excluding pre-emptive rights pursuant to § 186, subparagraph 3, sentence 4 of the German Stock Corporation Act (AktG) from authorized capital.

A total of 951,406 shares were successfully placed with institutional investors in Germany and abroad by way of an accelerated bookbuilding procedure. The issue amount was already several times oversubscribed before the market opened. The placement was managed by HVB Corporates & Markets, Munich, as lead-manager and sole bookrunner.

The placement price amounted to 20.00 Euro per share. This corresponds to a 1.19 percent discount against the share's XETRA closing price on the day preceding the placement. The gross proceeds of the issue received by Sunways AG aggregated approx. 19 million Euro.

The company's share capital was increased from 9,627,070.00 Euro to 10,578,476.00 Euro through the issuance of 951,406 ordinary shares to bearer with full profit participation rights as from the fiscal year 2005.

Photovoltaics industry continues to grow

**10. Outlook for the entire year 2006.** The positive development of the solar industry is continuing domestically as well as internationally. Demand continues to exceed supply many times over.

Positive result expected for the year 2006

For the fiscal year 2006, against the background of the current order backlog and the consistently strong demand, we expect a rise in sales in the upper two-digit percentage range but at least to 150 million Euro. As of the present date, the sale of the entire annual production has already been secured.

Additional growth may be achieved in the years 2006/2007 as a result of the cooperation with Unaxis AG through the expansion of capacities in the area of thin-film technology.

The photovoltaics market will continue to be dominated by a shortage of raw material

The 2006 result will experience a stronger percentage growth than sales during the same period. The amount of the rise in earnings will largely depend on the price development for the raw material silicon. The bottleneck situation in the photovoltaics market will continue to be determined by wafer procurement. We expect additional raw material capacities to be available no earlier than 2007 and silicon capacities for the photovoltaics market to double in 2008. Sunways AG has already secured its supply of raw materials until the second half of 2006 through a combination of long-term contracts and procurement in the spot market. As planned, the proceeds of the capital increase of 16 February 2006 will be used to ensure the long-term supply of raw materials.

The Management Board, 15 May 2006

**Financial calendar 2006.**

18 May 2006	General meeting in Constance
14 August 2006	Financial data for the 2nd quarter (April - June)
14 November 2006	Financial data for the 3rd quarter (July - September)
15 November 2006	Analysts' conference in Frankfurt am Main

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)