

# QUARTERLY REPORT

# Q1 / 2007

January – March 2007

***sunways***  
Photovoltaic Technology

## Sunways AG, Constance

### Notes to the Consolidated Interim Financial Statements (IFRS) as of 31 March 2007

#### Highlights

#### 1. Major events in the first quarter 2007 compared to the first quarter 2006:

- continuously high gross performance of 35.7 million Euro
- sales of 27.9 million Euro
- 11 percent rise in EBIT to +1.0 million Euro

**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 2006.

#### Positive development of result – weaker sales

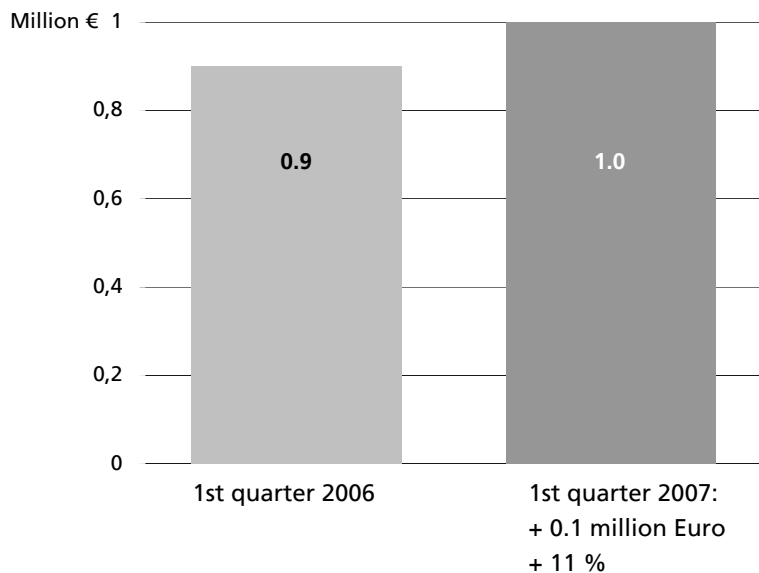
**3. Business operations.** In the first quarter 2007, gross performance remained stable against the prior year at 35.7 million Euro. EBIT rose by 11 percent to 1.0 million Euro.

In all, domestic and international demand showed markedly more restraint than in the comparable prior year period. In Germany, buyer restraint was mainly affected by price considerations. The discussion about upper price limits in the system segment has resulted in lasting customer uncertainty with respect to buying decisions.

In Spain, our most important international sales market, the delayed approval of the amended feed-in law resulted in a lack of growth impetus. New momentum was provided in the first quarter 2007 by the currently strong upswing in the Italian market, albeit only in the second half of February after the adoption of the new feed-in law. In combination with a significantly simplified approval procedure for system operators, it currently provides substantial new momentum to the market.

The exclusive, subsidy-independent business with Sunways automotive solar cells for Webasto AG again developed according to plan in the first quarter 2007. In addition, customized project solutions individually adapted to meet the needs of end customers were successfully implemented in the facade area with our unique transparent solar cells.

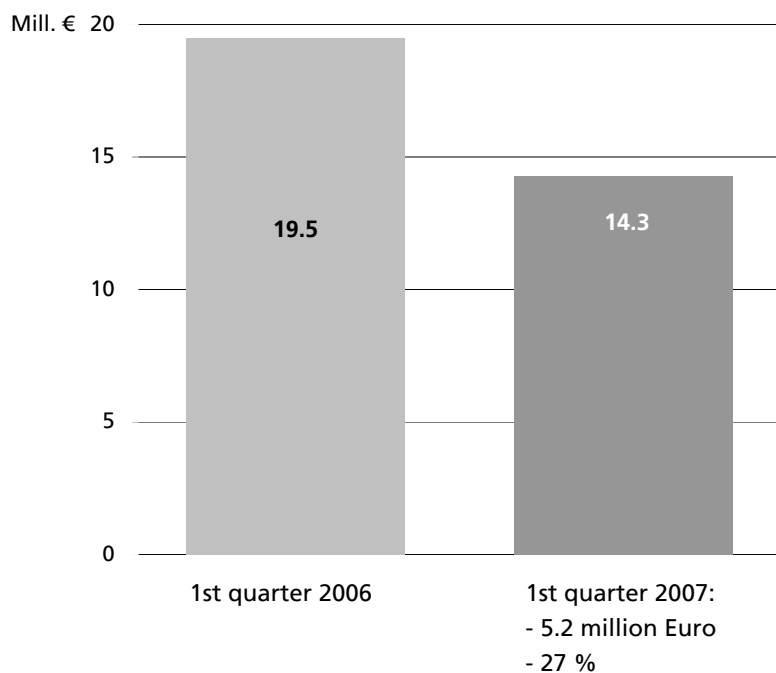
Quarterly comparison:  
11 percent rise in EBIT



**3.1 Solar cells.** In the first quarter 2007, capacities at our production plants in Constance and Arnstadt - taking into account the various cell formats - were fully utilized. This high production output in the first quarter 2007 - in combination with weaker sales - resulted in an increase in solar cells held in stock of about 7.0 million Euro.

### Sales

Improved segment result  
despite decline in sales



Export rate rises  
to 36 percent

In the first three months of 2007, sales in the solar cell division declined against the comparable prior year period by 27 percent to a total of 14.3 million Euro (prior year: 19.5 million Euro). The international share grew significantly: In the period under review, approximately 36 percent of solar cell sales were generated abroad (prior year: about 19 percent).

The raw material supply in the solar cell segment has been ensured for the second quarter 2007. Prices remained stable at the familiar high level in the first quarter 2007. At present, a sufficient number of wafers are offered in the spot market, although this involves the well-known disadvantage of markedly higher purchase prices.

**Production.** Currently, the production capacity of Sunways AG amounts to 46 megawatts (Sunways Production GmbH: 30 megawatts; Sunways AG: 16 megawatts). This production capacity (in MWp) was fully utilized in the first three months of the current fiscal year, taking into account the various wafer formats. The production output in the first three months of 2007 increased by almost 40 percent against the prior year from 6.9 megawatts to 9.6 megawatts.

The average efficiency rate of our monocrystalline solar cells is 17 percent. Our multicrystalline solar cells continue to achieve efficiency rates of about 14.7 percent, with peak rates even reaching up to 16 percent.

**Technology.** As a technological response to the tense situation in the procurement market, the focus of our research and development activities in the first quarter 2007 continued to be on cost-related aspects: minimizing raw material requirements through the use of the thinnest possible wafers and increasing the efficiency rate. Furthermore, we continuously review the optimum coordination of all components of a solar system in order to maximize the yield for system operators. The significant progress achieved remains a competitive advantage that is independent of fluctuating silicon prices and substantially increases our competitiveness.

We are also developing customized products in the thin-film technology field: With the new Inverter AT series we have developed a flexible product that will be used in systems based on crystalline as well as on thin-film technologies.

**Price development.** Solar cell prices increased to varying extents, depending on the cell type. The average price increase in the segment against the first quarter 2006 amounted to approx. 10 percent. Consequently, the EBIT in this segment also experienced a corresponding positive development, rising by 1.8 million Euro to 1.4 million Euro.

**Investments.** In the first quarter 2007, investments amounted to 0.3 million Euro.

Success in large projects, but declining sales and prices in the mass business

**3.2 Solar systems and projects.** As already indicated in section 3 above (business development), the markets in Germany, Spain and Italy showed significant restraint in the first quarter. Irrespective thereof, a large order in the area of transparent solar cells as well as another in the traditional segment (the latter for EDEKA) were realized.

Prices for solar modules in the first quarter 2007 were under pressure; the decline in income was only partially offset by improved purchasing conditions. These market-related impacts equally affected our subsidiary MHH Solartechnik GmbH.

Inventories in the module and inverter segments increased by 3.3 million Euro in the first quarter 2007. Thanks to the early initiation of a prudent order policy, this increase is within the fluctuation range customary in the operative business.

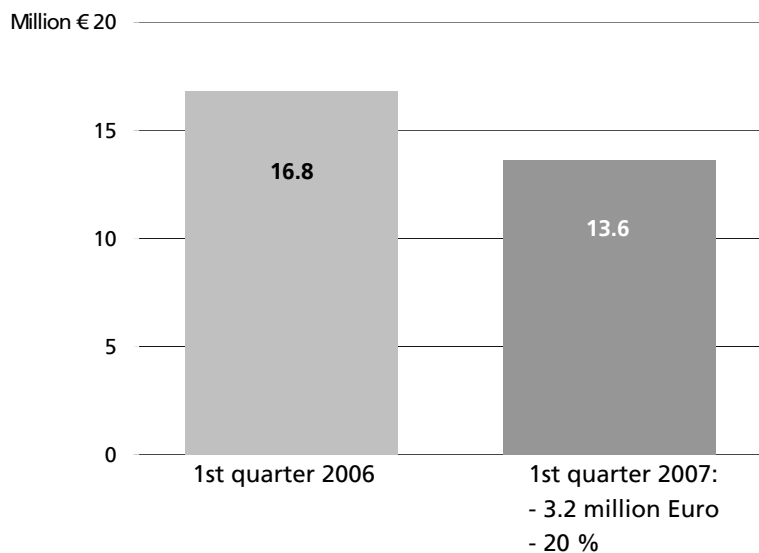
New „Solar Inverter AT“

**New products.** In the first quarter 2007, we completed the preparations for the market launch of the new Sunways Solar Inverter AT. The technology developed in cooperation with the Fraunhofer Institute is offered exclusively by Sunways. The inverter has many special technical features and can be used flexibly, inter alia in combination with thin-film modules. On the occasion of the initial product presentation at the Photovoltaische Symposium in Bad Staffelstein, the appliance, which will be available as from the second quarter 2007, already met with great interest.

At the Photovoltaische Symposium in Bad Staffelstein, we also introduced our new Sunways Solar Module SM215M. Since February 2007, Sunways AG has been producing monocrystalline solar cells in the 156 mm x 156 mm format with three instead of the traditional two busbars. Thus the electricity generated in the solar cell is passed on within the solar module with markedly reduced losses. In combination with another increase in the efficiency rate of the Sunways Solar Cell, the new contact design enabled Sunways AG to offer its customers an even more efficient version of the Module SM215M. The system operator benefits from the verifiably and significant increase in the solar module's performance in the form of a more effective surface utilization.

## Sales

Quarterly comparison:  
20 percent decline in sales



Export rate rises  
to 10 percent

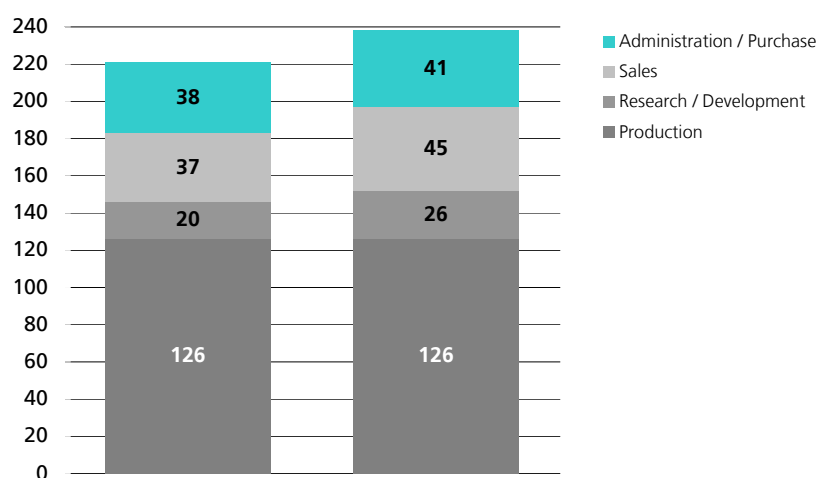
In the first quarter 2007, sales in this business division declined by about 20 percent against the prior year to 13.6 million Euro (prior year: 16.8 million Euro), with approx. 10 percent of sales being generated abroad (prior year: four percent).

Our new NT 10000 inverter proved to be particularly successful. Mainly in Spain, our strongest international market, sales figures doubled against the comparable prior year period.

**Price development.** Prices in the module and inverter division declined on the average by approx. 6.5 percent against the prior year period. Due to the largely stable international price levels, increased export sales partially offset the significantly stronger domestic price pressures.

**Investments.** In the first quarter 2007, investments amounted to 0.2 million Euro.

**5. Personnel and social matters.** As of 31 March 2007, the Sunways Group employed a workforce of 238 (as of 31 March 2006: 221). The employees were recategorized as of 31 March 2007 in order to ensure a correct period-to-period comparison of staff numbers also with respect to past quarters. The break-down of employees by functions was as follows:



**6. Sales and result.** In the first quarter 2007, we generated sales of 27.9 million Euro, a 23 percent decline against the comparable prior year figure (2006: 36.3 million Euro). EBIT achieved in the period under review improved to +1.0 million Euro (prior year: +0.9 million Euro) and were – as in the previous quarters – affected by high costs of raw materials. EBITDA amounted to +2.1 million Euro (prior year: +1.9 million Euro). In all, the business development in the first quarter resulted in a rise in consolidated net income against the first quarter 2006 to +0.5 million Euro (prior year: +0.4 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) after the first quarter amounted to 0.04 Euro (prior year: 0,04 Euro) and thus remained constant despite the rise in the number of shares. The 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) as well as solar systems and projects (development, production and distribution of inverters and distribution of and project management for solar systems, including Sunways Solar Modules).

In the solar cell division, it became obvious that smaller sales volumes in a very competitive market could be sold at markedly better prices than in the first quarter 2006 so that EBIT rose significantly.

In the solar systems division, reduced sales as well as the strong price pressure resulted in a decline in EBIT. In addition to the non-existent gross profit contribution, increased development activities in the inverter area affected the result on the cost side.

	1st quarter 2007				1st quarter 2006			
	Solar cells	Solar systems	Conso- lidation	Total	Solar cells	Solar systems	Conso- lidation	Total
	Million €	Million €	Million €	Million €	Million €	Million €	Million €	Million €
Sales	14.3	13.6	0.0	27.9	19.5	16.8	0.0	36.3
EBITDA	+2.3	-0.2		+2.1	+0.5	+1.4		+1.9
Depreciation and amortization	-0.9	-0.2		-1.1	-0.9	-0.1		-1.0
EBIT	+1.4	-0.4		+1.0	-0.4	+1.3		+0.9



## Sunways AG, Constance Consolidated Balance Sheet as of 31 March 2007

	31/03/2007	31/12/2006
Assets	Million €	Million €
<b>Current assets</b>		
Liquid funds	10.8	3.8
Marketable securities	0.0	0.0
Trade receivables	10.2	8.0
Inventories	27.9	18.5
Prepayments and accrued income and other current assets	3.2	4.9
<b>Total current assets</b>	<b>52.1</b>	<b>35.3</b>
Tangible fixed assets	30.9	31.1
Intangible assets	2.1	2.0
Financial assets	0.1	0.1
Goodwill	0.2	0.2
Other assets	1.0	1.0
Deferred taxes	5.3	5.6
<b>Total assets</b>	<b>91.7</b>	<b>75.2</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term loans and current portion of long-term loans	3.1	0.0
Trade payables	13.5	11.4
Provisions	3.6	2.4
Income tax payable	0.1	0.0
Other current liabilities	0.9	1.1
<b>Total current liabilities</b>	<b>21.1</b>	<b>14.9</b>
<b>Long-term liabilities</b>		
Bonds	6.9	6.9
Long-term loans	0.0	2.7
Prepayments received	10.0	0.0
Other long-term liabilities	2.6	0.0
Deferred taxes	0.8	0.7
<b>Total long-term liabilities</b>	<b>20.3</b>	<b>10.3</b>
Deferred investment grants	9.5	9.7
<b>Shareholders' equity</b>		
Subscribed capital	11.3	11.3
Capital reserve	35.4	35.3
Accumulated profit / loss	-5.9	-6.3
<b>Total shareholders' equity</b>	<b>40.8</b>	<b>40.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>91.7</b>	<b>75.2</b>

(Rounding differences are possible)

**Sunways AG, Constance**  
**Consolidated Income Statement**  
**from 01/01 – 31/03/2007**

	01/01 – 31/03/2007	01/01 – 31/03 2006
	Million €	Million €
Sales	27.9	36.3
Changes in inventories of finished and unfinished goods	7.8	-0.6
<b>Gross performance</b>	<b>35.7</b>	<b>35.7</b>
Other operating income	0.6	0.4
Cost of materials	-29.5	-29.8
Personnel expenses	-2.5	-2.4
Depreciation and amortization	-1.1	-1.0
Other operating expenses	-2.2	-2.0
<b>Operating result (EBIT)</b>	<b>1.0</b>	<b>0.9</b>
Interest income / expenses	-0.2	-0.3
<b>Result before taxes</b>	<b>0.8</b>	<b>0.6</b>
Taxes on income	-0.3	-0.2
<b>Consolidated net income / loss</b>	<b>0.5</b>	<b>0.4</b>
<b>Earnings per share in €</b> (consolidated net income/loss : number of shares; diluted = undiluted)	0.04	0.04
Average number of shares outstanding	11,267,089	10,086,738

(Rounding differences are possible)

## Sunways AG, Constance Consolidated Cash-flow Statement from 01/01 – 31/03/2007

	01/01 – 31/03/2007	01/01 – 31/03/2006
	Million €	Million €
<b>Operating activities</b>		
Operating result (EBIT)	+1.0	+0.9
Income tax received / paid (-)	0.0	-0.2
Depreciation and amortization	1.1	1.0
Income and expenses not affecting cash-flow	-0.2	-0.1
<b>Operating result before changes in net current assets</b>	<b>1.9</b>	<b>1.6</b>
<b>Changes in assets and liabilities:</b>		
Increase (-) / decrease in receivables and other current assets, accruals and deferrals	-3.1	-2.5
Cash provided by investment grants / allowances	2.7	0.0
Increase (-) / decrease in inventories	-9.4	0.0
Increase (-) / decrease in trade payables and other short-term provisions, liabilities	3.0	-2.3
<b>Cash provided by operating activities</b>	<b>-4.9</b>	<b>-3.2</b>
<b>Investment activities</b>		
Purchase of fixed assets	-0.9	-1.1
<b>Cash used for investment activities</b>	<b>-0.9</b>	<b>-1.1</b>
<b>Financing activities</b>		
Cash provided by / used for (-) long-term loans	0.0	-1.5
Cash provided by / used for (-) short-term bank loans	3.1	-1.9
Contributions to subscribed capital and capital reserves	0.0	18.7
Cash provided by / used for (-) interest	-0.1	-0.2
Cash provided by / used for (-) other long-term liabilities	9.9	0.0
<b>Cash provided by / used used for (-) financing activities</b>	<b>12.9</b>	<b>15.1</b>
<b>Net increase/decrease of liquid funds</b>	<b>7.0</b>	<b>10.8</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>	<b>3.8</b>	<b>2.7</b>
<b>Cash and cash equivalents at the end of the reporting period</b>	<b>10.8</b>	<b>13.5</b>
<b>Composition of liquid funds at the end of the reporting period</b>		
Marketable securities	0.0	0.5
+ Cash	10.8	13.0
	<b>10.8</b>	<b>13.5</b>

(Rounding differences are possible)

## Sunways AG, Constance Changes in Shareholders' Equity from 01/01 – 31/03/2007

	Subscribed capital	Reserves	Profit / loss brought forward	Total
	Million €	Million €	Million €	Million €
01 January 2006	9.6	15.2	-8.1	16.7
Change resulting from 10 % capital increase	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>
01 January 2006	9.6	15.2	-8.1	16.7
Change resulting from 10 % capital increase	1.0	18.1		19.1
Transaction costs after taxes		-0.3		-0.3
Convertible bonds	0.6	2.3		2.9
Change in equity component of convertible bonds after taxes		-0.1		-0.1
Changes relating to share options pursuant to IFRS 2		0.1		0.1
Exercise of share options	0.1			0.1
<b>Net income</b>			<b>1.8</b>	<b>1.8</b>
<b>31 December 2006</b>	<b>11.3</b>	<b>35.3</b>	<b>-6.3</b>	<b>40.3</b>
31 December 2006 / 01 January 2007	11.3	35.3	-6.3	40.3
Changes relating to share options pursuant to IFRS 2		0.1		0.1
<b>Net income</b>			<b>0.4</b>	<b>0.4</b>
<b>31 March 2007</b>	<b>11.3</b>	<b>35.4</b>	<b>-5.9</b>	<b>40.8</b>

(Rounding differences are possible)



**8. Shareholdings of members of executive bodies.** The following table shows the Sunways shares and share options held by the members of the Management Board and Supervisory Board as of 31 March 2007.

	Shares as of 31/03/2007
<b>Management Board</b>	
Roland Burkhardt (chairman)	1,770,345
Ralph Kienzler	0
Michael Wilhelm	0
<b>Supervisory Board</b>	
Prof. Heinz W. Bull, chairman	0
Otto Mayer, deputy chairman	744,000
Dr. Roland R. Bahr	5,902
Ernst Haug	3,695
Thomas Nordmann	0
Frank Wehking	0

As of 31 March 2007, 11,267,089 Sunways shares were outstanding.

**Directors' Dealings – information on dealings of 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.

No directors' dealings were reported to us in the period under review.

Improving markets set the course for a positive business development in 2007

**9. Outlook for the entire fiscal year 2007.** We anticipate the domestic and international market environment in 2007 to be stable to strongly growing. In Germany, we expect the level in 2007 to remain about the same as in 2006, i.e. no major increase in volume. The Spanish market is expected to again report two-digit growth rates and thus continue to be a reliable growth driver. After the positive impressions at the „Solarexpo“ trade fair in Verona, a substantial volume growth may be anticipated in 2007 for the Italian market. As from the second half of 2007 onwards, the Greek market will also for the first time be able to absorb larger volumes.

These positive market signals and expectations support the Sunways management in its firm opinion that the growth rates budgeted for the fiscal year 2007 will be achieved. In the wake of the markedly improving business development, temporarily increased inventories will again be reduced. We expect prices in the systems segment to remain at their current level - at least during the two summer quarters 2007.

With respect to the raw materials sector, we currently find that an increasing number of reliable high-quality silicon wafers are available in the market and offered to us. The numerous offers from traders in the spot market decreased significantly. We believe this to be clear sign for a calming of the spot market business. With respect to wafers, we expect that the supply situation can be secured at its presently high level for the third and fourth quarters 2007.

We will start selling our new Sunways Solar Inverter AT in the second quarter 2007. We expect this product to increase our market penetration. The Solar Inverter AT is closing the gap in our solar inverter family for a more flexible use. Thus customers will be able to meet all requirements of photovoltaic systems in the lower capacity range with Sunways Solar Inverters. Furthermore, we will enter into the thin-film segment with the Sunways Solar Inverter AT. The unique design with an almost constant efficiency rate throughout the entire input voltage range enhances the customer benefit.

The Management Board, 15 May 2007

**Financial calendar 2007.**

24 May 2007	Annual general meeting in Constance
14 August 2007	Financial data for the 2nd quarter (April – June)
14 November 2007	Financial data for the 3rd quarter (July – September)

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)).

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