

QUARTERLY REPORT

Q III / 2006

April – June 2006

sunways
Photovoltaic Technology

Sunways AG, Constance

Notes to the Consolidated Interim Financial Statements (IAS) as of 30 June 2006

Highlights

1. Major events of the second quarter 2006:

- rise in sales by almost 80 percent against the comparable prior year period (38.4 million Euro)
- EBIT in the second quarter affected by rising prices of raw materials (+0.4 million Euro)
- demand continues to be very strong – excellent order position

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.

Positive business development

3. Business operations. Business development was again positive in the second quarter. Gross performance in the second quarter 2006 rose by 83 percent from 21.5 million Euro (2005) to 39.4 million Euro.

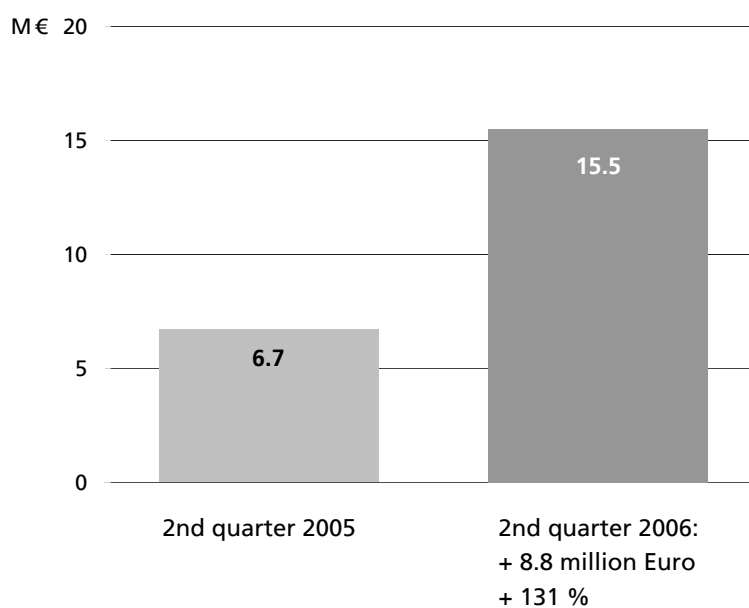
The domestic and international demand continues to exceed the supply volume of photovoltaic products currently available throughout the industry. Simultaneously, growth continues to be restricted by the availability of raw materials. This applies mainly to solar modules.

The exclusive contract on the supply of solar cells for the automotive industry entered into between Sunways AG and Webasto AG in February 2006 is being fulfilled according to plan. Under the two-year contract, which is expected to generate sales of 5 million Euro in 2006, Sunways is currently the only company worldwide supplying solar cells to be integrated into car roofs by Webasto AG. The rise in demand on the part of the automotive industry already perceivable confirms the venture into this promotion-independent market that offers much potential.

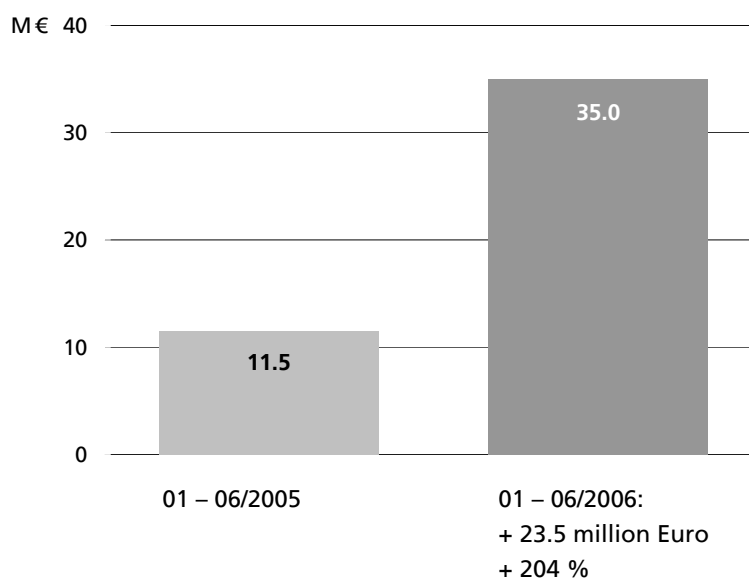
3.1 Solar cells. In the second quarter 2006, the capacities of our production operations in Constance and Sunways Production GmbH in Arnstadt were almost fully utilized. The Constance production units were increasingly involved in research and development projects. The continuously strong demand will secure sales of our products in the long term.

Sales

Quarterly comparison:
131 percent rise in sales



Semi-annual comparison:
204 percent rise in sales



In the first half-year 2006, sales more than tripled against the comparable prior year period to 35.0 million Euro (prior year: 11.5 million Euro).

Approximately 23 percent of solar cell sales in the second quarter 2006 were generated abroad (prior year: approx. 8 percent). Domestic demand continues to be very strong and exceeds the available supply volume.

With respect to the medium-term supply of raw materials, we deliberately opted against long-term contracts involving high advance payments and purchase prices fixed at high levels and for a combination of long-standing long-term contracts and procurement in the spot market. As taken into account in our planning, the current situation in the spot market has aggravated and resulted in higher purchase prices. Presently, we are buying some of the raw materials we require at about twice to four times the price prevailing under long-term price arrangements.

Production. Following the prior year's expansion of capacities, the current production capacity of Sunways AG is 46 megawatts, with 30 megawatts thereof accounting for the Arnstadt production plant. In the second quarter 2006, the economies of scale created by the expansion were again diminished by the rise in raw material prices.

The production output of the first half-year 2006 more than doubled against the prior year from 5.6 MW (2005) to 13.7 megawatts (2006).

In January 2006, we restructured our production activities: at the Constance plant, we mainly produce transparent and colored solar cells in various formats according to individual customer wishes as well as solar cells for the automotive industry. In Arnstadt, we manufacture high-quality standard solar cells with high efficiency rates. This restructuring has already proven its worth and is highly appreciated by customers. The separation enables us to increasingly work on special projects.

The average efficiency rate of solar cells from multicrystalline silicon was approx. 14.7 percent. We currently achieve top efficiency rates of up to 16 percent. Our monocrystalline solar cells reach efficiency rates of up to 17 percent and continue to hold a top position in technology.

Technology. In view of the difficult situation in the raw material procurement market, our research and development activities are focused on two cost-related aspects: minimizing raw material requirements through the use of the thinnest possible wafers and increasing the efficiency rate.

In the reporting period, the number of development projects implemented at the Constance production plant increased. Furthermore, together with other renowned manufacturers, we entered into a cooperation agreement with the Fraunhofer Institut für Solare Energiesysteme (ISE), thereby ensuring our access to a new technology for the production of highly efficient solar cells. We continue to closely observe the developments in the area of thin-film technology. The development pace of the corresponding research activities has accelerated. This technology, which has already been discussed for about ten years, will be of interest to a company with high technological demands such as Sunways AG when an innovative technology can be applied in serial production to an economically reasonable extent. At present, no product that meets our priorities is available in the market: a production process that guarantees product qualities such as performance and durability, ensures profitable production and generates an end product which can successfully compete with crystalline solar cells also in the long term is of crucial importance to us.

We are already preparing our existing products for utilization in combination with thin-film components. We do not expect to produce thin-film solar cells before 2008.

Investments. No significant investments were made in the second quarter 2006.

Strong demand
for solar systems

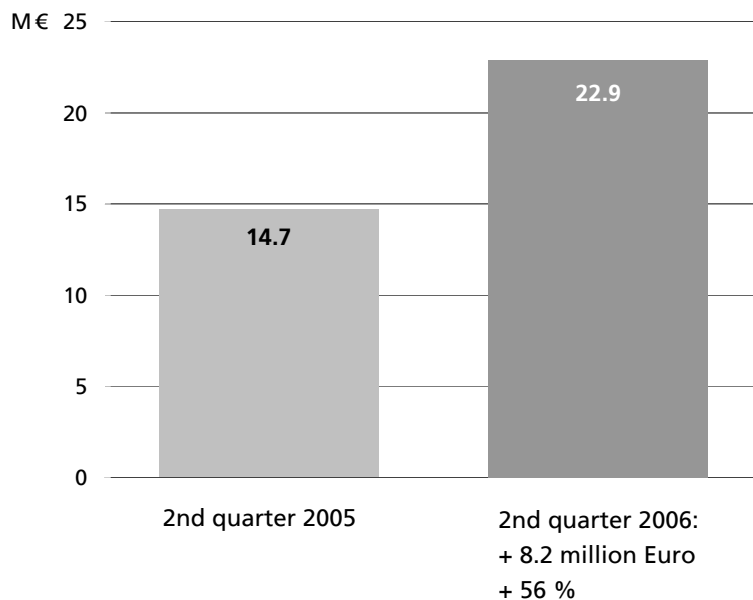
3.2 Solar systems and projects. Demand in the solar systems and projects division was again very strong in the second quarter. Quality modules continue to be extremely scarce in the world market. Therefore, quotas for our Sunways Solar Modules are still allocated to our customers.

Expansion of distribution activities. In January 2006, we started to develop our own distribution organization for photovoltaic systems and expanded our product range to include solar modules.

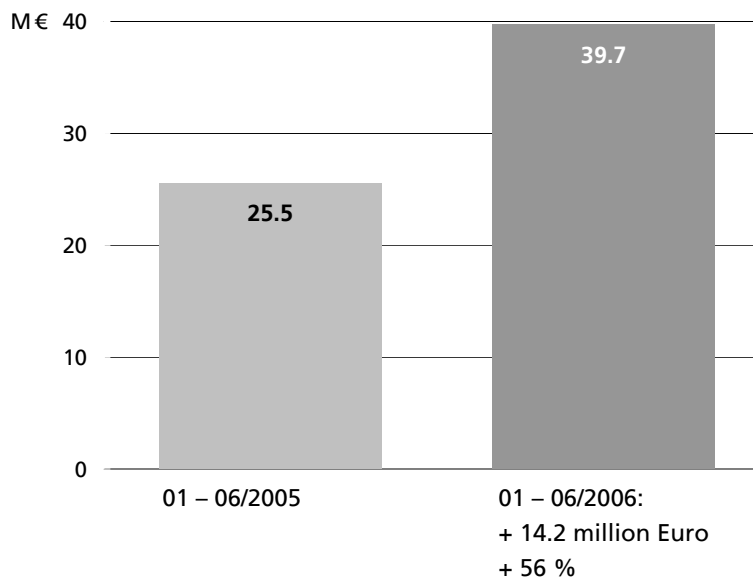
The Sunways Solar Module SM 170U with integrated Sunways Solar Cells was rated „Good“ by Stiftung Warentest in May this year and thus was the test winner. This result confirms the quality and strong performance of our modules in all four test categories – from the generation of electricity through durability to safety, documentation and installation. Compliance with nominal performance and the performance conformity of various modules were excellent. The quality seal so awarded created an increased demand for the modules. This is a positive marketing step towards positioning the “Sunways” brand as a system provider.

Sales

Quarterly comparison:
56 percent rise in sales



Semi-annual comparison:
56 percent rise in sales



Excellent order position

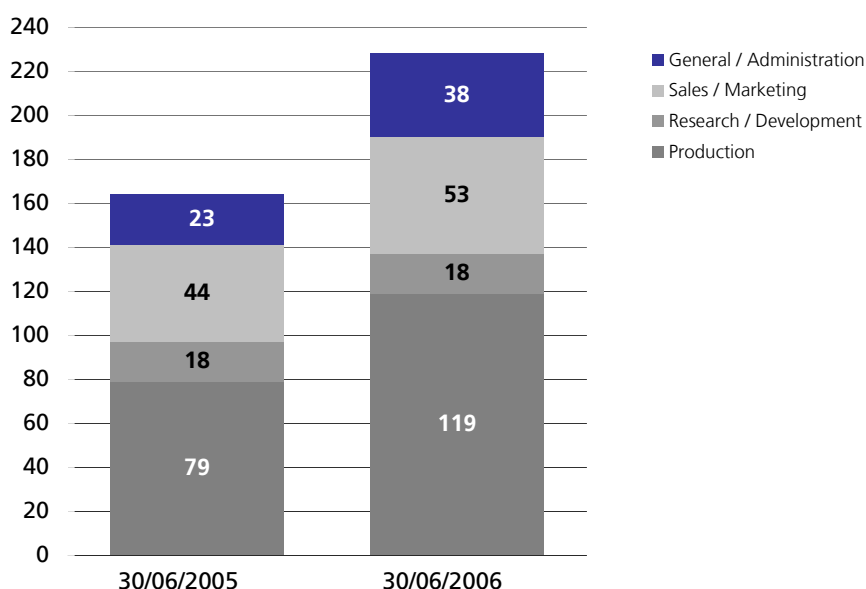
In the second quarter 2006, sales in this business division rose by 56 percent against the prior year to 22.9 million Euro (prior year: 14.7 million Euro). We generated 95 percent of our sales in Germany (prior year: 95 percent).

In our Barcelona sales office, the focus continues to be on the distribution of our Sunways Solar Inverters. We were again able to maintain our 13 percent market share in Spain in the second quarter 2006.

Sunways Solar Inverter NT. Within the framework of a development project, we are already preparing our inverter family Sunways Solar Inverter NT for the potential use in combination with thin-film modules.

Investments. No significant investments were made in the second quarter 2006.

5. Personnel and social matters. As of 30 June 2006, the Sunways Group employed a staff of 228 (as of 30 June 2005: 164). The break-down of employees by functions was as follows:



6. Sales and result. In the second quarter 2006, we generated sales of 38.4 million Euro. This figure was almost 80 percent above the comparative prior year sales (2005: 21.4 million Euro). At +0.4 million Euro, EBIT generated in the reporting period corresponded to the prior year figure, reflecting the strong rise in raw material prices. EBITDA amounted to +1.7 million Euro (prior year: +0.9 million Euro). This resulted in a break-even at Group level in the second quarter 2006 (prior year: 0.0 million Euro).

On a semi-annual basis, our sales (2006: 74.7 million Euro) and result (2006: +1.3 million Euro) more than doubled against the prior year (sales 2005: 36.8 million Euro; EBIT 2005: +0.6 million Euro).

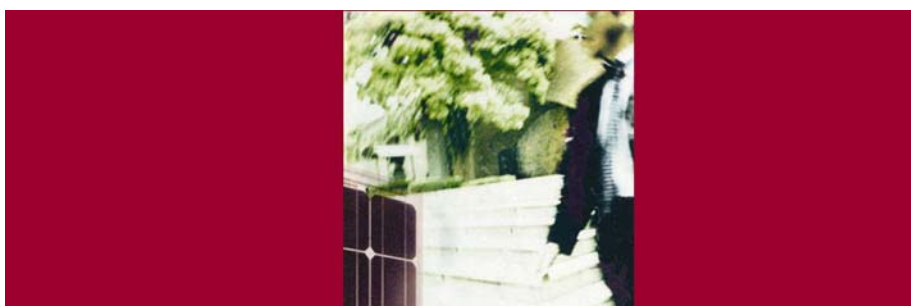
Undiluted earnings per share (basic earnings per share pursuant to IAS 33) at the end of the second quarter amounted to 0.00 Euro (prior year: 0.00 Euro). The diluted earnings equal the undiluted earnings.

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).

	2nd quarter 2006				2nd 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	15.5	22.9	0.0	38.4	6.7	14.7	0.0	21.4
EBITDA	+0.1	+1.6		+1.7	-0.2	+1.0		+0.9
Depreciation and amortization	-1.2	-0.1		-1.3	-0.5	0.0		-0.5
EBIT	-1.1	+1.5		+0.4	-0.6	+1.0		+0.4

	01 – 06/2006				01 – 06/2005			
	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	35.0	39.7	0.0	74.7	11.5	25.5	-0.2	36.8
EBITDA	+0.6	+3.0		+3.6	-0.3	+1.8		+1.5
Depreciation and amortization	-2.1	-0.2		-2.3	-0.8	-0.1		-0.9
EBIT	-1.5	+2.8		+1.3	-1.1	+1.7		+0.6

(Rounding differences are possible)



Sunways AG, Constance Consolidated Balance Sheet as of 30 June 2006

	30/06/2006	31/12/2005
	Millions of €	Millions of €
Assets		
Current assets		
Liquid funds	13.9	2.3
Marketable securities	0.5	0.5
Trade receivables	5.2	6.5
Inventories	15.5	12.9
Prepayments and accrued income and other current assets	11.5	12.6
Total current assets	46.5	34.8
Tangible fixed assets	32.6	33.0
Intangible assets	1.4	1.6
Financial assets	0.1	0.1
Goodwill	0.2	0.2
Deferred taxes	3.4	3.5
Total assets	84.2	73.2
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans and current portion of long-term loans	1.3	3.9
Trade payables	9.8	10.7
Prepayments received	0.0	0.1
Provisions	1.5	1.6
Other current liabilities	3.8	3.3
Accruals and deferred income	0.3	0.0
Total current liabilities	16.7	19.6
Long-term liabilities		
Bonds	7.7	9.7
Long-term loans	10.8	15.7
Deferred taxes	0.6	0.7
Total long-term liabilities	19.2	26.1
Deferred investment grants	10.4	10.7
Shareholders' equity		
Subscribed capital	11.1	9.6
Capital reserve	34.5	15.2
Accumulated profit/loss	-7.6	-8.1
Total shareholders' equity	38.0	16.7
Total liabilities and shareholders' equity	84.2	73.2

(Rounding differences are possible)

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

	01/04 – 30/06/2006	01/04 – 30/06/2005	01/01 – 30/06/2006	01/01 – 30/06/2005
	Millions of €	Millions of €	Millions of €	Millions of €
Sales	38.4	21.4	74.7	36.8
Changes in inventories of finished and unfinished goods	1.0	0.1	0.4	0.1
Gross performance	39.4	21.5	75.1	36.9
Other operating income	0.6	0.0	1.0	0.1
Cost of materials	-33.0	-17.3	-62.8	-29.4
Personnel expenses	-2.4	-1.8	-4.8	-3.3
Depreciation and amortization	-1.3	-0.5	-2.3	-0.9
Other operating expenses	-2.9	-1.6	-4.9	-2.8
Operating result (EBIT)	0.4	0.4	1.3	0.6
Interest income/expenses	-0.3	-0.3	-0.6	-0.5
Result before taxes	0.1	0.1	0.7	0.1
Taxes on income	-0.1	0.0	-0.3	-0.1
Consolidated net income/loss	0.0	0.0	0.4	0.0
Earnings per share in € (consolidated net income/loss : number of shares; diluted = undiluted)	0.00	0.00	0.04	0.00
Average number of shares outstanding	10,757,613	9,569,903	10,426,745	9,542,126

(Rounding differences are possible)

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

	01/01 – 30/06/2006	01/01 – 30/06/2005
	Millions of €	Millions of €
Operating activities		
Operating result (EBIT)	1.3	0.6
Income tax received/paid (-)	-0.2	0.0
Depreciation and amortization	2.3	0.9
Income and expenses not affecting cash-flow	-0.5	0.0
Operating result before changes in net current assets	2.9	1.5
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	2.4	-0.7
Increase (-)/decrease in inventories	-2.6	-3.9
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	-0.9	1.9
Cash provided by operating activities	1.8	-1.3
Investment activities		
Purchase of fixed assets	-1.3	-16.1
Cash used for investment activities	-1.3	-16.1
Financing activities		
Cash provided by/used for (-) bonds	-2.0	0.1
Cash provided by/used for (-) long-term loans	-4.9	6.0
Cash provided by/used for (-) short-term bank loans	-2.6	0.4
Contributions to subscribed capital and capital reserves	20.8	0.6
Cash provided by/used for (-) interest	-0.4	-0.1
Cash provided by/used used for (-) financing activities	10.9	6.8
Net increase/decrease of liquid funds	11.6	-10.6
Cash and cash equivalents at the beginning of the reporting period	2.8	14.2
Cash and cash equivalents at the end of the reporting period	14.4	3.6
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.5	1.0
+ Cash	13.9	2.6
	14.4	3.6

(Rounding differences are possible)

Sunways AG, Constance Changes in Shareholders' Equity from 01/01 – 30/06/2006

	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 relating to share options pursuant to IFRS 2	0.1	0.4	-0.1	0.4
Net income			0.0	0.0
30 June 2005	9.6	15.1	-8.4	16.4
01 January 2005	9.5	14.7	-8.3	15.9
Changes relating to share options pursuant to IFRS 2		0.2	-0.1	0.1
Exercise of share options	0.1	0.3		0.4
Net income			0.4	0.4
31 December 2005	9.6	15.2	-8.1	16.7
31 December 2005 / 01 January 2006	9.6	15.2	-8.1	16.7
Capital increase dated 16/02/2006 (10 percent)	1.0	17.7		18.7
Convertible bond	0.4	1.6		2.0
Exercise of share options	0.1	0.1		0.2
Net income			0.4	0.4
30 June 2006	11.1	34.5	-7.6	38.0

(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 30 June 2006.

	Shares as of 30/06/2006
Management Board	
Roland Burkhardt	1,740,345
Supervisory Board	
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, 11,081,411 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.

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

9. Capital-related measures. With respect to the use of funds received in connection with the capital increase dated 16 February 2006, we are currently working on four projects to secure the supply of raw materials in the medium and long term. In July 2006, Ralph Kienzler was appointed a member of the Management Board. This appointment strengthened our competence in the procurement and production areas.

10. Outlook for the entire fiscal year 2006. Contrary to the opinion expressed in some media reports that the domestic demand for photovoltaic products is weakening, we observe a continuously strong demand. In our assessment, the positive development of the domestic and international solar industry will persist and demand will continue to exceed supply many times over.

Scarcity of raw materials is a predominant issue in the photovoltaics market

Wafers for the solar cell production continue to be scarce. We expect additional raw material capacities to be available from 2007 onwards and silicon capacities for the photovoltaics market to double in the year 2008.

2006 result strongly affected by raw material prices

In the second quarter, the consolidated result was adversely affected by the development of prices and volumes on the raw materials side which, depending on the completion of current activities, may continue in subsequent quarters. The increase in the result projected for the entire fiscal year 2006 does not seem achievable from today's point of view. The actual amount will depend on the results of activities in the solar systems and silicon procurement areas. From today's point of view, we will end the fiscal 2006 with positive EBIT.

Presently, the sale of our annual production has already been secured. We continue to strive for a rise in sales in the upper two-digit percentage range, but at least to 150 million Euro, for the fiscal year 2006.

The Management Board, 14 August 2006

Financial calendar 2006.

14 November 2006 Financial data 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).

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