

QUARTERLY REPORT

Q III / 2006

July – September 2006

sunways
Photovoltaic Technology

Sunways AG, Constance

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

Highlights

1. Major events of the third quarter 2006:

- 69 percent rise in sales against the comparable prior year period (39.2 million Euro)
- EBIT constant at 0.5 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 2005.

Positive business development

3. Business operations. Business development was again positive in the third quarter 2006. Gross performance rose by 64 percent from 24.6 million Euro (2005) to 40.3 million Euro.

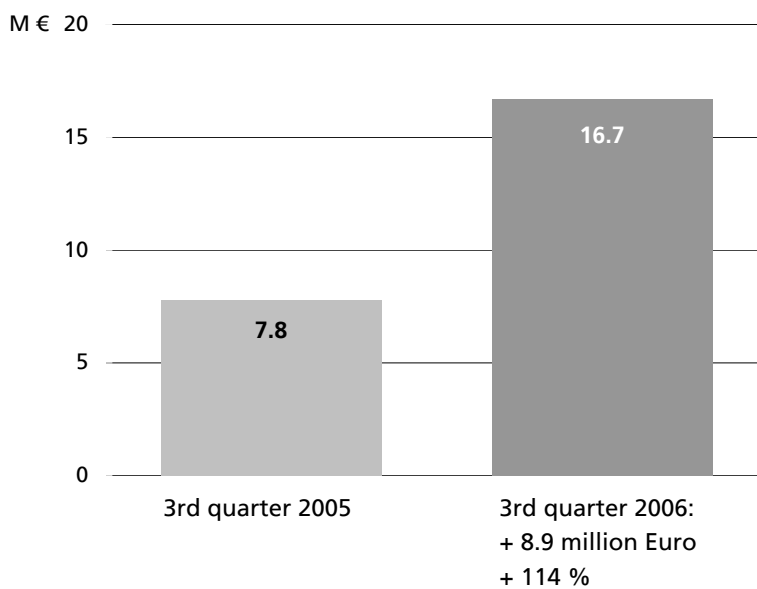
The domestic and international demand is presently hesitant. Due to the still strong capacity utilization, this resulted in some cases in higher inventory levels.

The supply cooperation with Webasto AG experiences a stable development; the exclusive agreement on the delivery of solar cells for the automotive industry is executed according to plan. Sales of about 5 million Euro are expected to be generated in 2006 under this supply agreement.

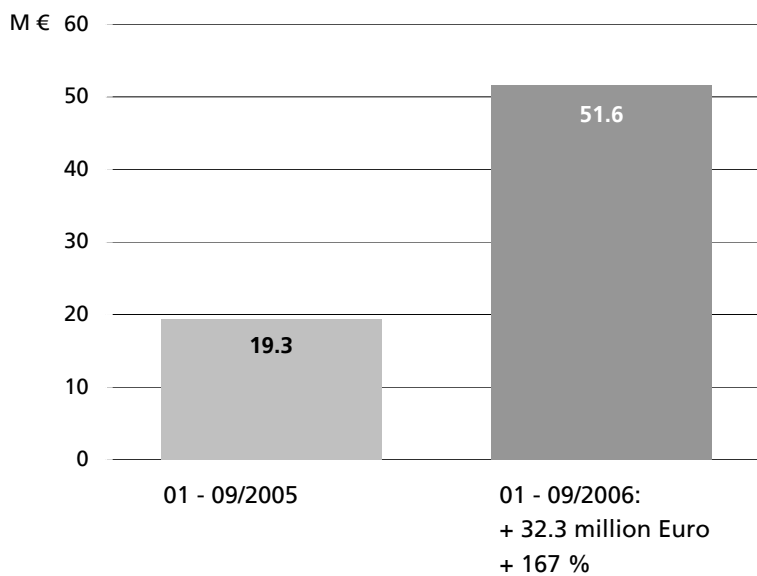
3.1 Solar cells. Capacities at our production plants in Constance as well as at Sunways Production GmbH in Arnstadt were again almost fully utilized in the third quarter.

Sales

Quarterly comparison:
114 percent rise in sales



Nine-month comparison:
167 percent rise in sales



In the first nine months of 2006, sales rose by 167 percent against the comparable prior year period to a total of 51.6 million Euro (prior year: 19.3 million Euro).

Approximately 19 percent of solar cell sales in the third quarter 2006 were generated abroad (prior year: approximately four percent).

The raw materials supply situation in the spot market severely deteriorated over the past few months. Raw material prices have now stabilized at a high level in the period under review.

On 17 August 2006, we entered into a contract with Deutsche Solar AG, Freiberg, on the supply of multicrystalline silicon wafers. The contract will take effect as from 2009 for regular quotas over a period of 10 years and relates to the supply of silicon wafers by Deutsche Solar AG for the production of a total of 70 megawatts of multicrystalline solar cells by Sunways AG. The contract was entered into on the terms customary in the industry to secure the raw material requirements of Sunways AG in the long term.

Production. The production capacity of Sunways AG equals 46 megawatts of which 30 megawatts account for the Arnstadt production plant. In the third quarter 2006, the increase in raw material prices again partially offset the effects of scale resulting from the expansion of capacities implemented in September 2005.

The production output in the first nine months of 2006 more than doubled against the prior year from 8.6 megawatts (2005) to 21.6 megawatts (2006).

We were able to increase the average efficiency rate of our monocrystalline solar cells from 16 to 17 percent. Multicrystalline solar cells have an efficiency rate of about 14.7 percent, with top efficiency rates reaching up to 16 percent.

Technology. Due to the difficult situation in the procurement market for raw materials, our research and development activities continue to focus on two cost-related aspects: minimizing raw material requirements through the use of the thinnest possible wafers and increasing the efficiency rate.

We continue our thin-film technology development activities in order to create a product that meets our high technological demands and may be used to launch an economically efficient serial production.

In view of our claim to technological leadership, we focus on the compatibility of our inverters with thin-film modules and are presently in the process of developing a relevant device.

High-quality products
sought after

Investments. In the third quarter 2006, investments in the amount of 0.9 million Euro were made.

3.2 Solar systems and projects. Demand in the solar systems and projects division was again very strong in the third quarter. In this segment as well we observed that the market requires high-quality products.

Sunways Solar Modules. We have sold Sunways Solar Modules since January 2006 and constantly pursued the establishment of our own distribution organization for photovoltaic systems.

The demand for our Sunways Solar Module SM 170U, which was rated „Good“ by Stiftung Warentest in May this year and thus was the test winner, has increased since the award. This success emphasizes the strong demand for high-quality products.

New products. At the "21st European Photovoltaic Solar Energy Conference and Exhibition" held in September in Dresden, we presented three product novelties:

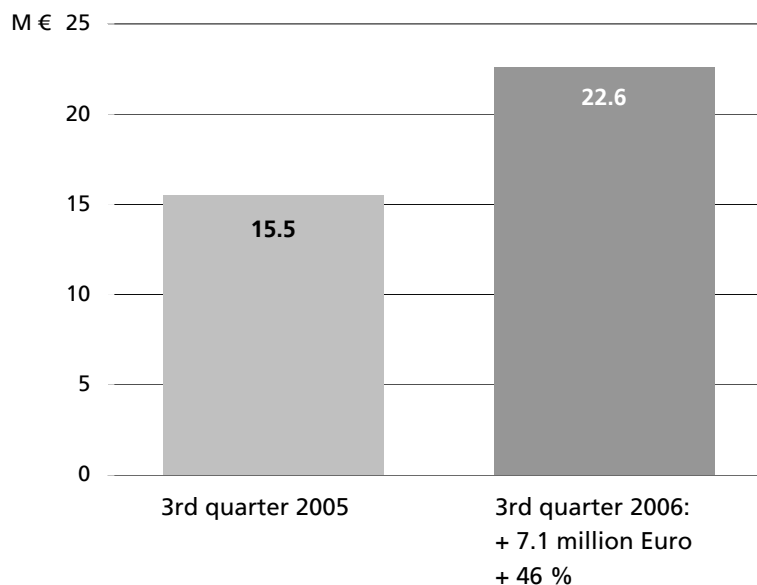
High-quality, robust, external DC switch-disconnectors to go with the Sunways Solar NT Inverters are available in the NT series design. According to the new DIN VDE 0100-712 standard, they provide the required DC circuit breaker.

The newly available frameless large-scale display featuring the Sunways design is suitable for photovoltaic systems up to a capacity of approx. 50 kilowatts peak. In addition to the current capacity and energy yields, the display, which is suitable for indoor and outdoor areas, also indicates the CO2 reduction and can be connected directly to the Sunways Communicator or an electric meter with pulse output.

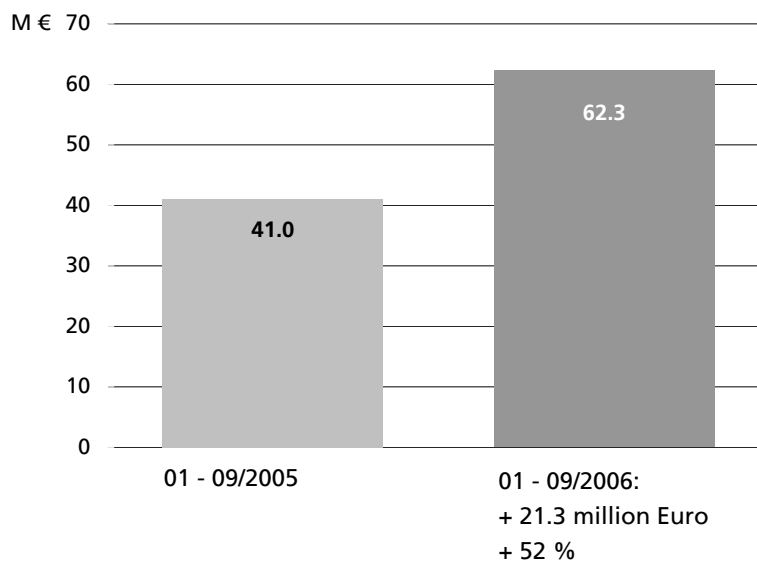
For controlling up to five Sunways Solar Inverters NT 2600 to NT 6000 or two NT 10000 Solar Inverters, the system operator may use the new Sunways Communicator 05 which is equipped with an analogue modem. Access to the Sunways Internet portal, where the values indicated are available, is free of charge for two years.

Sales

Quarterly comparison:
46 percent rise in sales



Nine-month comparison:
52 percent rise in sales



Excellent order position

In the third quarter 2006, sales in this division rose by 46 percent against the prior year to 22.6 million Euro (prior year: 15.5 million Euro). We generated 97 percent of such sales in Germany (prior year: 97 percent).

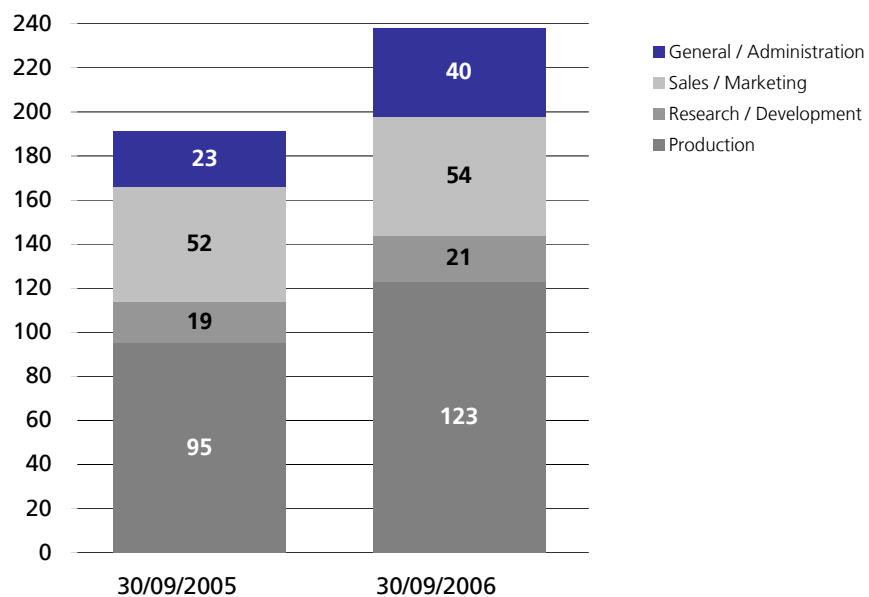
At our Barcelona sales office, the focus continues to be on the distribution of our Sunways Solar Inverters. We again reached our 13 percent share in the dynamically growing Spanish market in the third quarter 2006.

Sunways Solar Inverter NT. With the efficiency rate of our solar inverters we continue to be at the top of the field. We again organized various information events for our customers in the period under review: our distribution team traveled through Germany on the occasion of the „sunways on tour“ campaign. Large-scale inverter training events were held at our Constance head office.

On 25 September 2006, we also started an initiative under the motto „Sunways gibt Acht“. In the course of this campaign, we will launch a limited number of Sunways Solar Inverters NT with an extended warranty period of eight years.

Investments. In the third quarter 2006, investments in the amount of 0.2 million Euro were made.

5. Personnel and social matters. As of 30 September 2006, the Sunways Group employed a staff of 238 (as of 30 September 2005: 191). The break-down of employees by functions was as follows:



6. Sales and result. In the third quarter 2006, we generated sales of 39.2 million Euro, a 69 percent increase against the comparable prior year figure (2005: 23.2 million Euro). EBIT achieved in the period under review amounted to +0.5 million Euro (prior year: +0.5 million Euro) and again reflected the strong increase in raw material costs. EBITDA amounted to +1.7 million Euro (prior year: +1.0 million Euro), resulting in consolidated net income for the third quarter of +1.9 million Euro (prior year: 0.0 million Euro).

For the first nine months of 2006 sales rose by almost 90 percent against the previous year to 113.9 million Euro (2005: 60.1 million Euro). The result was +1.8 million Euro (2005: +1.1 million Euro).

Undiluted earnings per share (basic earnings per share pursuant to IAS 33) at the end of the third quarter amounted to 0.21 Euro (prior year: 0.00 Euro). The diluted earnings equal the undiluted earnings.

Since the reasons for the write-downs of deferred taxes relating to loss carryforwards from fiscal years prior to 2001 ceased to exist in the period under review, such write-downs were reversed accordingly. The income resulting from the reversal (1.8 million Euro) was reported under „Taxes on income“.

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).

	3rd quarter 2006				3rd quarter 2005			
	Solar cells	Solar systems	Consol.	Total	Solar cells	Solar systems	Consol.	Total
	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions
	of €	of €	of €	of €	of €	of €	of €	of €
Sales	16.7	22.6	0.0	39.2	7.8	15.5	0.0	23.2
EBITDA	+0.6	+1.1		+1.7	-0.4	+1.4		+1.0
Depreciation and amortization	-1.0	-0.2		-1.2	-0.4	-0.1		-0.5
EBIT	-0.4	+0.9		+0.5	-0.8	+1.3		+0.5

	01 - 09/2006				01 - 09/2005			
	Solar cells	Solar Systems	Consol.	Total	Solar cells	Solar systems	Consol.	Total
	Millions	Millions	Millions	Millions	Millions	Millions	Millions	Millions
	of €	of €	of €	of €	of €	of €	of €	of €
Sales	51.6	62.3	0.0	113.9	19.3	41.0	-0.2	60.1
EBITDA	+1.2	+4.0		+5.2	-0.7	+3.2		+2.5
Depreciation and amortization	-3.1	-0.3		-3.5	-1.2	-0.2		-1.4
EBIT	-1.9	+3.7		+1.8	-1.9	+3.0		+1.1

(Rounding differences are possible)

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

	30/09/2006	31/12/2005
	Millions of €	Millions of €
Assets		
Current assets		
Liquid funds	11.1	2.3
Marketable securities	0.0	0.5
Trade receivables	9.5	6.5
Inventories	17.5	12.9
Prepayments and accrued income and other current assets	9.6	12.6
Total current assets	47.7	34.8
Tangible fixed assets	32.1	33.0
Intangible assets	1.4	1.6
Financial assets	0.1	0.1
Goodwill	0.2	0.2
Deferred taxes	5.3	3.5
Total assets	86.7	73.2
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans and current portion of long-term loans	9.8	3.9
Trade payables	12.4	10.7
Prepayments received	0.0	0.1
Provisions	2.0	1.6
Other current liabilities	2.7	3.3
Accruals and deferred income	0.2	0.0
Total current liabilities	27.2	19.6
Long-term liabilities		
Bonds	7.4	9.7
Long-term loans	1.0	15.7
Deferred taxes	0.8	0.7
Total long-term liabilities	9.2	26.1
Deferred investment grants	10.2	10.7
Shareholders' equity		
Subscribed capital	11.2	9.6
Capital reserve	34.8	15.2
Accumulated profit/loss	-5.8	-8.1
Total shareholders' equity	40.2	16.7
Total liabilities and shareholders' equity	86.7	73.2

(Rounding differences are possible)

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

	01/07 - 30/09/2006	01/07 - 30/09/2005	01/01 - 30/09/2006	01/01 - 30/09/2005
	Millions of €	Millions of €	Millions of €	Millions of €
Sales	39.2	23.3	113.9	60.1
Changes in inventories of finished and unfinished goods	1.1	1.3	1.5	1.4
Gross performance	40.3	24.6	115.4	61.5
Other operating income	0.4	0.0	1.4	0.1
Cost of materials	-33.9	-19.9	-96.7	-49.3
Personnel expenses	-2.5	-1.9	-7.3	-5.2
Depreciation and amortization	-1.2	-0.5	-3.5	-1.4
Other operating expenses	-2.7	-1.9	-7.6	-4.7
Operating result (EBIT)	0.5	0.5	1.8	1.1
Interest income/expenses	-0.4	-0.4	-1.0	-0.9
Result before taxes	0.1	0.1	0.8	0.2
Taxes on income	1.7	0.0	1.4	-0.1
Consolidated net income/loss	1.9	0.0	2.3	0.0
Earnings per share in € (consolidated net income/loss : number of shares; diluted = undiluted)	0.17	0.00	0.21	0.00
Average number of shares outstanding	11,118,058	9,680,091	10,659,715	9,588,619

(Rounding differences are possible)

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

	01/01 - 30/09/2006	01/01 - 30/09/2005
	Millions of €	Millions of €
Operating activities		
Operating result (EBIT)	+1.8	+1.1
Income tax received/paid (-)	0.0	-0.1
Depreciation and amortization	3.5	1.4
Income and expenses not affecting cash-flow	-0.6	0.0
Operating result before changes in net current assets	4.6	2.4
Changes in assets and liabilities:		
Increase (-)/decrease in receivables and other current assets, accruals and deferrals	0.0	-1.0
Increase (-)/decrease in inventories	-4.6	-5.1
Increase (-)/decrease in trade payables and other short-term provisions, liabilities	0.8	1.1
Cash provided by operating activities	0.8	-2.6
Investment activities		
Purchase of fixed assets	-2.3	-21.6
Cash used for investment activities	-2.3	-21.6
Financing activities		
Cash provided by/used for (-) bonds	-2.3	0.1
Cash provided by/used for (-) long-term loans	-14.7	11.8
Cash provided by/used for (-) short-term bank loans	5.9	0.4
Contributions to subscribed capital and capital reserves	21.2	0.6
Cash provided by/used for (-) interest	-0.2	-0.2
Cash provided by/used used for (-) financing activities	9.9	12.7
Net increase/decrease of liquid funds	8.3	-11.5
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	11.1	2.7
Composition of liquid funds at the end of the reporting period		
Marketable securities	0.0	0.5
+ Cash	11.1	2.2
	11.1	2.7

(Rounding differences are possible)

Sunways AG, Constance Changes in Shareholders' Equity from 01/01 – 30/09/2006

	Subscribed capital	Reserves	Profit/ loss brought forward	Total
	Millions of €	Millions of €	Millions of €	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 September 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	0.5	1.8		2.3
Exercise of share options	0.1	0.1		0.2
Net income			2.3	2.3
30 September 2006	11.2	34.8	-5.8	40.2

(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 September 2006.

	Shares as of 30/09/2006
Management Board	
Roland Burkhardt, chairman	1,740,345
Ralph Kienzler	0
Supervisory Board	
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 30 September 2006, 11,152,415 Sunways shares were 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 period under review.

9. Executive bodies. Effective as of 01 November, Michael Wilhelm was appointed Chief Financial Officer by the Supervisory Board. The 45-year-old graduate in business administration will be in charge of the commercial sector and the finance, controlling, investor relations, human resources and information technology divisions. In line with Corporate Governance recommendations, Wilhelm has initially been appointed for a period of three years, i.e. until 31 October 2009.

Focus on exports

10. Outlook for the entire fiscal year 2006. A „reorientation with respect to prices“ is currently under way in the domestic and international market environment. However, demand continues to be marked primarily by customers' clear focus on efficient, high-quality products. In conjunction with intensified export activities - in particular to Southern Europe - the Management of Sunways AG is convinced that the inventories built up during the third quarter can be reduced in the current quarter.

In respect of the raw materials area, we currently observe a stabilization of raw material prices at a high level and the availability of various quantities in the spot market, depending on the situation. Capacities at our production plants will be fully utilized in the first quarter 2007 and we have secured the necessary raw materials supply for this period. Depending on market developments, the further supply of raw materials will be arranged through projects that are currently under way.

Also against this changed background, Sunways AG is striving for a rise in sales for the fiscal year in the upper two-digit percentage range to 150 million Euro.

The Management Board, 14 November 2006

Financial calendar 2006.

15 November 2006	Analysts' conference in Frankfurt am Main in connection with the „3rd SEQ Smart Equities Conference“ of DVFA
17 November 2006	Analysts' conference in Berlin in connection with the „7th Forum Solarpraxis“
28 November 2006	Presentation at the „Deutsche Eigenkapitalforum“ 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).

Sunways AG
Investor Relations
Macairestraße 3 - 5
D - 78467 Konstanz
Telephone +49 7531 99677480
Fax +49 7531 99677548
ir@sunways.de
www.sunways.de

