
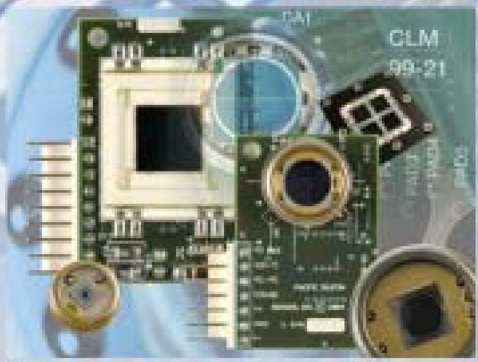

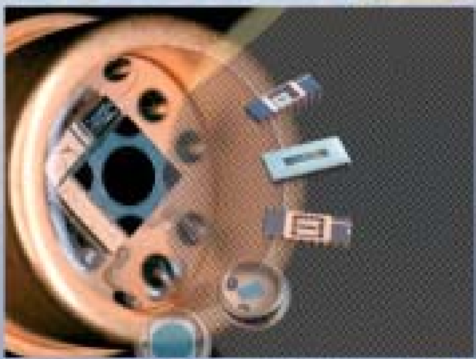
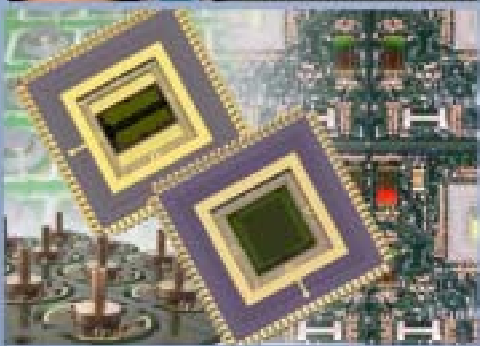

SILICON SENSOR

BUSINESS REPORT
for the year 2005

SILICON SENSOR INTERNATIONAL AG

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for the Silicon Sensor Group

Financial ratios 2005

Financial ratios October 01, 2005 - December 31, 2005 (IV. quarter 2005)

	Oct. 01, 2005 - Dec. 31, 2005 *€ 1,000*	*Oct. 01, 2004 - Dec. 31, 2004* *€ 1,000*	*Change in* *€ 1,000*	*% Change*
Sales revenue	**6,573**	3,243	3,330	103
Back orders	**10,204**	8,178	2,026	25
EBITDA	**1,310**	1,126	184	16
EBIT	**775**	570	205	36
Three-month surplus	**494**	491	3	1
Three-month surplus €/ individual share certificate	**0.14**	0.21	- 0.07	- 33
Share	**3,457,900**	2,317,500	1,140,400	49
R&D expenditure	**601**	116	485	418
Staff (Dec. 31)	**222**	102	120	118

Financial ratios Jan. 01, 2005 - Dec. 31, 2005 (business report 2005)

	Jan. 01, 2005 - Dec. 31, 2005 *€ 1,000*	*Jan. 01, 2004 - Dec. 31, 2004* *€ 1,000*	*Change in* *€ 1,000*	*% Change*
Sales revenue	**15,969**	13,841	2,128	15
Back orders	**10,204**	8,178	2,026	25
EBITDA	**3,208**	3,364	- 156	- 5
EBIT	**1,996**	2,090	- 94	- 4
Twelf-month surplus	**1,339**	1,373	- 34	- 2
Twelf-month surplus €/ individual share certificate	**0.52**	0.60	- 0.08	- 13
Share	**2,554,000**	2,275,993	278,007	12
R&D expenditure	**965**	479	486	101
Staff (Dec. 31)	**222**	102	120	118

Foreword

by the Management Board

Silicon Sensor continues to grow – better result is sound basis for the future

To all shareholders and business associates,

certainly the most significant event in fiscal 2005 was the takeover of the majority of shares in the profitable MPD Microelectronic Packaging Dresden GmbH on September 16, 2005, which has opened up a whole new dimension for the Silicon Sensor Group. Working together with the MPD, we are planning on sales of about € 30 million and an EBIT of around € 3.5 million, which will practically double the size of the Silicon Sensor Group.

The decisive factor behind the share acquisition was the excellent experience we had over many years in our joint projects in the automotive supplies industry. This merger will allow us to meet the needs of future automotive projects even better than before. Our immediate top priorities will be to tap the existing synergies with MPD, further develop the existing project ideas, and integrate the company into the Silicon Sensor Group. This means that the company has a lot of rewarding work ahead of it.

As our shareholders, you made a major contribution towards the successful integration of MPD by subscribing to the increase in capital stock. Over 93 % of the previous shareholders took part in the increase in capital stock. We appreciate this as a great show of confidence in our company's future and we thank you for it. Unfortunately, we could not even come close to satisfying all the requests to subscribe we received from institutional investors. In total, the capital stock increase was about three times oversubscribed

As expected, the Silicon Sensor Group's 2005 results did not match the extraordinarily positive results in 2004 because the sales development in the last business year was influenced by sales projected for 2005 being accounted for in 2004. Aspects which have had a negative impact on the Silicon Sensor Group's positive business development are the first-time adoption of IFRS 2, the discharge of pension obligations, customer product range restructuring measures and the resulting changes to their delivery request patterns. Nevertheless, we are delighted to report profitable business development. We realized growth of sales of around 15 % compared with last year from € 13.84 million to € 15.97 million. EBIT remained at an almost constant level, declining slightly by ca. 4 % from € 2.1 million (Dec. 31, 2004) to around € 2 million (Dec. 31, 2005). The EBIT margin is around 13 %. Last year, earnings before interest and taxes *also declined slightly from € 1.37 million (Dec. 31, 2004) to € 1.34 million (Dec. 31, 2005). Earnings per share in the period under review were approx. € 0.52, which is only € 0.08 less than EPS in the same period last year (Dec. 31, 2004: € 0.60).*

Fortunately, the volume of orders increased by about 25 % to attain € 10.20 million at Dec. 31, 2005 versus € 8.18 million at Dec. 31, 2004. Our customers are showing a general tendency to place orders at shorter notice, especially in the areas of hybrid manufacturing and packaging.

Production activities are still focused on custom products, which are sometimes very engineering-intensive. The key areas are still custom hybrid circuits, packaging and sensor solutions, as well as avalanche photodiodes.

At the same time as presenting these results, the Managing Board would like to thank all members of staff for the ideas they have contributed, and the commitment shown in making the group even more prosperous. We also thank the members of the Supervisory Board for their constructive approach to the business process and the guidance provided at critical junctions which has helped secure the group's successful development.

Not least, the commitment of our shareholders has gone a long way toward making 2005 a good business year in which key decisions were made to ensure a prosperous future for the Silicon Sensor group.

Berlin, March 2006

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel *Dr. Hans-Georg Giering*

Business development

The Silicon Sensor group specializes in the production of optoelectronic sensors (photo detectors) for identifying and measuring alpha, beta, gamma and X-rays, ultraviolet and visible light and near-IR radiation. It also develops and manufactures extremely reliable user-specific hybrid ICs and products for micro system technology. Customers include leading industrial groups and research establishments with production engineering and strategic orientations requiring the outsourcing of highly specialized manufacturing processes.

The group's main activity is in the market for optoelectronic sensors, the key components in a wide range of applications. With this profile, Silicon Sensor is largely independent of business cycles affecting various industrial sectors. Market conditions for these high-end products are generally described as favorable, and so is the future potential for growth.

Silicon Sensor is among a small circle of companies worldwide developing and making optical high-end sensors for exacting requirements. A case in point are Avalanche Photo Diodes (APDs) and Avalanche Photo Diode Arrays which were developed and produced only recently. These products are world leaders when it comes to quality and speed. APDs, for instance, are installed by the group's clients in high-precision proximity sensing systems for a wide range of uses.

The trend of business of the Silicon Sensor Group has not been fundamentally changed by the acquisition of Microelectronic Packaging Dresden GmbH. On the contrary, MPD GmbH directly extends the value-added chain of the Silicon Sensor Group and thereby further reduces the dependency on external service providers. With over 35 years of experience in the field of design and connection technology in semiconductor and sensor manufacturing and proven abilities in filling orders for custom connection solutions for electronics components and modules, ranging in quantity from individual units on to millions of units per year, the Silicon Sensor Group will open up completely new market segments in the field of series production. At the same time, however, the experience and skills of MPD in the field of automotive supplies will strengthen our existing lines of business and help develop them. In addition, MPD develops processes for new applications and fields of action as well as its own system solutions, increasingly often in cooperation with other partners, primarily for CMOS camera systems and MEMS, with the objective of establishing a market position less dependent on individual industries.

Our consistently positive operating cash flow also helps ensure that we will be able to achieve our growth objectives. To finance the acquisition of shares in MPD GmbH, both the liquid assets of the Silicon Sensor Group and ordinary bank loans were used. The short-term bank loans were paid off with the proceeds from the increase in capital stock and at the same time the Group’s liquidity reserve was restored to its former level.
The liquid assets, including marketable securities, rose by about 40 % over the prior year, from € 3,780 k (Dec. 31, 2004) to € 5,299 k (Dec. 31, 2005).

Plans for the business years to come are built on sound growth, with cash planning assuming a further increase in sales and a related positive effect on operating cash flows. In the opinion of the Executive Board, current liquidity is sufficient to reach the ambitious targets for growth. The Managing Board considers liquidity sufficient for reaching proposed growth targets.

Foreign developments

Once the group's share in the European market has consolidated, the greatest potential for growth will be in North America and Asia. In order to consolidate our position in foreign markets and pursue the internationalization of our company, the development of Pacific Silicon Sensor Inc. has been continued according to plan. In 2005, our American subsidiary increased its sales by 22 %, up from $ 981 k (Dec. 31, 2004) to $ 1,200 k (Dec. 31, 2005), once again showing a net profit for the year. The organic growth which has been achieved is evidence of the growing acceptance of Silicon Sensor products also in North America. At the same time, Pacific Silicon Sensor Inc. will begin in the current fiscal year to take charge of the distribution activities on behalf of MPD. A continuous rise in the contribution to operating income is expected for the subsidiary during business year 2006.

Personnel

The SIS group's success derives from the extensive know-how of its employees and over 30 years of experience in the development and manufacture of high-class optical sensors and extremely reliable hybrid ICs. Its economic future will depend not only on the motivation of existing staff but also on the recruitment of new highly skilled personnel.

The number of persons employed by the Silicon Sensor Group increased, especially through the acquisition of MPD, to 222 employees at year-end 2005 versus 102 employees in the same period last year (at the end of fiscal 2004).

Prospects

The SIS Group has entered the market of optical sensors, hybrid technology and design and connection technology as an important specialized provider of high-quality custom solutions.

The group foresees growing sales and revenues in almost all subsidiaries, with the greatest increases expected for Pacific Silicon Sensor Inc. and Silicon Sensor GmbH. These profits and those made by other affiliates will hopefully add up to group results in 2006 which are better than those achieved in 2005.

Silicon Sensor's market significance will continue to grow in 2006, with the group's wealth of know-how being utilized as a strategic factor for success in consistently expanding both sales and revenues.

Over the last business years, Silicon Sensor has widened its clientele, thus reducing its dependence on a number of major customers. At the same time, greater presence in the U.S. and Asian markets will, in the medium term, help to compensate for fluctuations in demand and reduce dependence on big customers in Europe. In targeting these new operating areas, the group hopes to minimize risks arising from macroeconomic developments.

Berlin, March 2006

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel *Dr. Hans-Georg Giering*

Management report

Group Management Report and Management Report of Silicon Sensor International AG for the Financial Year 2005

- ***Sales increase 15 % from € 13.84 million to € 15.97 million***
- ***EBIT held steady at more than € 2 million***
- ***Net earnings drop only slightly, from € 1,373 k to € 1,339 k***
- ***Liquid assets rose by 40 %, from € 3.78 million to € 5.3 million***
- ***Further growth based on extensive use of customized opto-electronic sensors worldwide***

Accounting procedures

Silicon Sensor International AG (hereafter referred to as SIS) has drawn up consolidated accounts in keeping with standards set by Deutsche Börse AG and, for better comparability at international level, in compliance with IFRS (*International Financial Reporting Standards*).

General economic environment

Whereas general market trends are characterized by sluggish economic growth, VDI (the association of German engineers) has singled out commercial uses of light as a future market. Optical technology already provides about 15 % of all manufacturing jobs, and estimates made by IPM (Fraunhofer Institut für Physikalische Messtechnik) in Freiburg/ Germany see 30 % of today's electronic processes replaced by optical techniques in future. While this is partly responsible for the semiconductor industry's dwindling (processor/ memory) chip sales, there is no major decline seen in the trade with optical high-end sensors.
The SIS Executive Board believes that the niche market the company has found with user-specific high-end applications will develop favorably in comparison with other business trends because clients will continue to demand such products in their drive to find and provide more innovative uses.

Sales

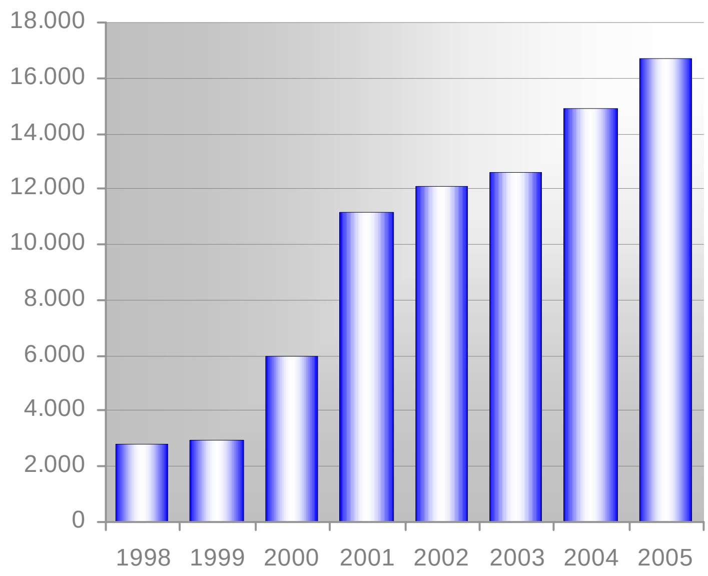
Continuous sales growth

Consolidated sales have risen by 15 % from € 13.84 million (2004) to € 15.97 million (2005), a development to which nearly all subsidiaries active in the core business contributed. The sales growth was mainly due to the successful acquisition of MPD and the consolidation of MPD completed in the fourth quarter of the fiscal year. As expected, in fiscal 2005 the Silicon Sensor Group without MPD was not entirely capable of continuing the fine sales growth of 2004, since the prior year figures were partly based sales projected for 2005 being accounted for in fiscal 2004. The positive sales development of the Silicon Sensor Group was impaired, among other things, by the changeover of product lines at our clients', and the resulting changes in customer ordering patterns. In the first fiscal year under the sole management of General Manager Mr. Maximilian Sailer, Lewicki microelectronic GmbH achieved very fine performance. We are very pleased that the employees of Lewicki microelectronic GmbH under Mr. Sailer's management could bridge the gap occasioned by the death of the former General Managers of many years, Dr. Edmund Rickus, and to pursue the company's successful development. We are also very satisfied with the stable positive sales trend of our American subsidiary. Silicon Sensor GmbH concentrated its work during the fiscal year 2005 on opening up new areas of sales and making preparations for the first deliveries to major international automotive suppliers planned for the current fiscal year.

Total sales of the Silicon Sensor Group prior to consolidation in € 1,000

Sales growth (before consolidation) in € 1,000

(Note: MPD was not taken into account in the consolidated sales until the fourth quarter.)



Management report

SILICON SENSOR INTERNATIONAL AG

Earnings

Consolidated profit and loss statement

€ 1,000	2005	% of Total Output	2004	% of Total Output
		*adjusted through**		*adjusted through**
Sales	15,969	95 %	13,841	99 %
Total output	**16,876**	100 %	**13,921**	100 %
Cost of materials	- 5,245	31 %	- 3,268	23 %
Gross margin	**11,631**	69 %	**10,653**	77 %
Personnel expenses	- 5,879	35 %	- 5,124	37 %
Depreciation & amortization (fixed assets, goodwill)	- 1,212	7 %	- 1,274	9 %
Other expenses	- 2,544	15 %	- 2,165	16 %
Operating income	**1,996**	12 %	**2,090**	15 %
Financial and investment income/ expenses	- 233	- 2 %	- 183	- 1 %
Consolidated income before tax	**1,763**	10 %	**1,907**	14 %
Income taxes	- 340	2 %	- 531	4 %
Loss attributable to minority interests	- 84	0 %	- 3	0 %
Consolidated net income	**1,339**	8 %	**1,373**	10 %

* adjusted through the first-time application of IFRS 2

As expected, consolidated earnings in fiscal 2005 only approximated the prior-year level. The share of personnel expenditure and the percentage rate of depreciation in gross operating performance were slightly lower than the prior-year level. The sharp increase in spending on materials due to the different manufacturing structure of MPD prevented a more positive net result.

Earnings per share, even though the number of shares was increased to 2,554,000 still reached € 0.52 (Dec. 31, 2005) only 13 % below the prior-year figure (€ 0.60), and thus surpassed our expectations for fiscal 2005.

Investments

Total group capital investment in 2005 amounted to approx. € 1.0 million, resulting in an investment quota of about 6 %.
The aim was to achieve future growth targets while making allowance for risk management and related systems and requirements. Capital spending at the same time will ensure the group's innovation capability in future.

Acquisitions

Certainly, the most significant event in fiscal 2005 was the takeover of the majority of shares in the profitable MPD Microelectronic Packaging Dresden GmbH on September 16, 2005, which has opened up a whole new dimension for the Silicon Sensor Group. In 2006, no further acquisitions are in the process of negotiation. Nevertheless, the Silicon Sensor Group is looking for synergies with compatible companies in order to further develop its long-term position in the sensor market. The necessary starting point for considering further acquisitions will be the successful integration of Lewicki microelectronic GmbH as well as the current integration of Microelectronic Packaging Dresden GmbH and its expected positive impact on the development of our market position in the current fiscal year 2006.

State of the Silicon Sensor International AG

Silicon Sensor International AG developed successfully throughout the past financial year. The overall performance of Silicon Sensor International AG was almost unchanged. Income before tax and interest improved due to good results reported by subsidiaries, despite an increase in other operating costs from € 1,128,000 (Dec. 31, 2004) to € 1,267,000 (Dec. 31, 2005) and the remission of a debt incurred by the U.S. subsidiary worth € 0.25 million. With this waiver we are accompanying the further evolution of Pacific Silicon Sensor Inc. from a sales company into a fully-fledged development and production location for the American market. By strengthening our subsidiary company's equity capital we are at the same time also strengthening its position on its domestic market. The Management Board is taking a positive stance toward the increase in liquid resources from € 2.5 million as of December 31, 2004 to € 3.5 million as of December 31, 2005. At the General Meeting, the Managing Board and Supervisory Board of the Company will propose at the general meeting that the retained earnings from business year 2005 (€ 472,309.40) be allocated to other retained income.

Management is expecting solid development of Silicon Sensor International AG in fiscal 2006. Silicon Sensor International AG, in addition to the fine work of the operational subsidiaries, is therefore making its own contribution to ensure that Silicon Sensor Group will be able to reach its growth objectives.

The Silicon Sensor share

Silicon Sensor share prices did perform positively throughout the last year. On the contrary, they dropped by about 14 %, due to the unfavorable trend of business. In accordance with the significantly better business prospects for the coming years, however, the share prices ought to increase accordingly in the long run. In addition, institutional investors are showing increased interest in Silicon Sensor shares.

Another indicator of sound growth for Silicon Sensor International AG has been the willingness of members of staff to subscribe new shares under the company's share option scheme. These subscriptions reached a total of 28,000 new shares during the 2005 business year, creating an inflow of liquid funds worth € 125,000.

In the fiscal year under review, several changes occurred with respect to reportable equity interests. At Dec. 31, 2005, the circle of institutional investors' shareholdings greater than 5 % in Silicon Sensor International AG included DWS Investment GmbH at 5.87 % (Oct. 07, 2005) and KST Beteiligungs AG at 5.1 % (June 23, 2005).

Management welcomed DWS Investment GmbH and KST Beteiligungs AG to the circle of shareholders as two strong partners of Silicon Sensor International AG ensuring its continued growth. The freefloat is currently about 89 %.

Share indices (Xetra)

	12/31/2005	12/31/2004	12/31/2003
Share price	10.19	11.89	4.08
Number of shares	3,457,900	2,317,500	2,250,000
Earnings per share	0.52	0.60	0.32
KGV	20	20	13
KUV	2.21	1.99	0.74
Free float	3,077,531	2,261,000	1,540,000

Group Financing

Consolidated cash flow statement

Compared with the previous year, cash flow developed as follows:

€ 1,000	2005	2004	Change
Operative cash flow	2,129	3,871	-1,742
Cash flow from investment activities	-17,167	-396	-16,771
Cash flow from financing activities	16,001	-753	16,754
Foreign currency translations	9	-7	16
Change in liquid funds	972	2,715	-1,743
Liquid funds at the beginning of the year	3,780	1,065	
Liquid funds at the end of the year	4,752	3,780	

The operational cash flow was once again positive in the 2005 financial year. Despite the financial requirements for new projects, the high rate of investment, and the systematic reduction in accounts payable to banks, cash flow remained clearly within the positive range. The Management Board is assuming that operational cash flow will continue to grow during the current financial year.

Low liquid funds - liquidity assured

Compared with the end of the previous year, funds increased by € 972 k. Budgeting for the years to come is aimed at sound growth, with liquidity planning for targeted sales growth and related positive operating cash flows. Exponential strategic expansion in future would require more inputs of equity and borrowed capital.
The Executive Board regards current liquidity as sufficient to achieve growth targets.

Balance sheet structure in 2005

The authorized capital recognized in the balance sheet as subscribed capital at Dec. 31, 2005 increased by € 3.421 k from € 6,953 k (Dec. 31, 2004) to € 10,374 k, composed of 3,457,900 shares with a par value of € 3 each.

A resolution adopted by the General Meeting on June 25, 2004 authorized the Executive Board to increase the capital stock, subject to the consent of the Supervisory Board, once or repeatedly by a total of € 3,375,000.00 over a period ending June 24, 2008 through the issue of new individual share certificates made out to bearer (authorized capital). To finance the acquisition of the majority of shares in Microelectronic Packaging Dresden GmbH, the company implemented an increase in capital stock out of the

authorized capital in fiscal 2005. The shareholders were given an option to purchase shares at a ratio of 25:12 at a purchase price of € 9.90 per newly issued share. 1,112,400 new shares were subscribed for in total. The company thereby obtained funds of € 11,012,760. The increase in capital stock was entered in the company's commercial register on Oct. 27, 2005.
The remaining authorized capital as of December 31, 2005 therefore amounts to € 37,800.
The balance sheet total at the balance sheet date increased by € 25.675 million (174 %) to € 40.38 million. Equity capital at the balance sheet date increased by € 12.33 million to € 22.11 million (prior year: € 9.78 million). That corresponds to an equity ratio of approximately 55 % (prior year: 67 %). At the balance sheet date, the Silicon Sensor Group had cash and cash equivalents in the amount of € 5,299 k (prior year: € 3,780 k).

Employees

On Dec. 31, 2005 Silicon Sensor had a total workforce of 222 worldwide, compared with 102 on Dec. 31, 2004. Of these, 217 were employed in Germany and 5 in other countries.

Product development

The group's basic philosophy is to supply user-specific products, which makes it a provider of technological services in a high-tech environment.

Apart from developing customized solutions, Silicon Sensor GmbH improved its process for making NIR epitaxial avalanche photodiodes (APDs) in 2005. These are the products expected to contribute most growth in future. The company also made progress in the field of array technology.

Lewicki microelectronic GmbH works on a wide range of custom-designed systems for medical, aeronautic and space applications, along with specific security engineering projects.

Microelectronic Packaging Dresden GmbH was primarily focused on designing pressure sensors and optical systems with the digital image capture. Great research-and-development efforts have been undertaken in those areas. The new systems are primarily intended to be used in the automotive industry, as well IT and security technology.

Pacific Silicon Sensor Inc. has come up with user-friendly system modules for APDs, and position and wavelength-sensitive photodiodes. Its activity in California is built around customized product development.

Silicon Instruments GmbH makes the Handheld Gamma Finder for a collaborator, W.O.M. World of Medicine AG, and is working successfully on a novel positron probe for cancer detection and research projects for sensor applications.

Group R & D expenditure in 2005 was € 1.0 million. Such expense was doubled in comparison with the prior year (2004: € 0.479 million). The increased research-and-development expenses will help strengthen our market position and prepare for the transition from supplying basic components to delivering complete systems or system components.

Risk Management

As an integral part of its national and international business, Silicon Sensor faces a variety of risks and therefore monitors and controls these activities at all times.

The Executive Board has established the following principles for risk management:

- Value-oriented administration should continuously add to company goodwill and improve the return on assets.
- Operational procedures should be based on decentralized management and generally accepted rules governing internal controls. Subsidiaries, divisions and departments are responsible for their own business process and should work to defined guidelines and standards established by the Executive Board. Related internal activities are illustrated in ISO documents describing process standardization, which should be followed.
- Silicon Sensor has its own standard strategy, planning and budgeting procedures for recording, assessing, monitoring and controlling the business process, which were also followed in 2005. Assistance is provided in the form of continuous market and competition research, and a monthly reporting system gathering data on orders, employment, earnings and the financial situation.
- The Executive Board and Directors of subsidiaries held quarterly meetings in 2005 to discuss and assess cumulative and individual risks with a view to complete processes and the group as a whole.
- Reporting and checking procedures used within the group give decision-makers the latest information, for instance on trading results, as well as early warnings of changes in the business environment for corrective action to be taken.

Risks regarding the future development of the group

One risk facing the Silicon Sensor group as an international competitor is that manpower needed to ensure planned growth may not be available, or only available at costs which are higher than budgeted. This is true of highly skilled staff in particular.

Proposed expansion of the group calls for constant liquidity, and there are cash reserves to deal with unforeseen developments. Existing credit lines for € 2.35 million which are presently not utilized by the company's will go a long way toward securing budgeted liquidity in the 2006 business year.

The Executive Board sees good development potential for Silicon Instruments GmbH and Pacific Silicon Sensor Inc. Previous investment in these companies was designed to further expansion of the group as a whole. One risk facing Silicon Instruments GmbH is that major clients fail to achieve their own targets for product distribution through existing and improved channels, which would affect the company's profitability.

Favorable trends in worldwide stock markets in the 2005 business year also affected Silicon Sensor's share price. There is currently no major risk of underpricing due to price movement resulting from general market trends, which would substantially restrict Silicon Sensor's future financial margin in terms of steps taken in relation to equity.

Outlook

Development of market environment is very difficult to assess

Cyclical trends in the sensor market and its environment should improve from the second half of 2005. Silicon Sensor's growing sales are primarily due to the customized solutions the company offers. Potential growth, besides the effects from product development, will also be brought about by an expansion of our activities on the US market.

In the 2006 financial year the Executive Board expects first stimuli for greater sales of APDs from a budding and rapidly growing market for Free Space Optics in the U.S.

Silicon Sensor believes the considerable developmental lead achieved in recent years make it particularly well prepared for this market segment.

Order book position

Fortunately, the volume of orders rose by about 25 % to reach € 10.20 million at Dec. 31, 2005 versus € 8.18 million at Dec. 31, 2004. Our customers are showing a general tendency to place orders at shorter notice, especially in the area of hybrid manufacturing and advanced packaging.

Acquisitions on a moderate level

After the successful acquisition and incorporation of the Microelectronic Packaging Dresden GmbH in fiscal 2005, Silicon Sensor will continue to look into further acquisitions and push ahead with them, if appropriate. In the future as in the past, such operations will be conducted in accordance with our group rules for optimization of shareholder value.

Statements on future developments

To the extent possible today, the group's planning for the coming financial year has made allowance for uncertainties in future economic trends such as changes in the economic environment, competition, the acceptance of products, processes and the company image in the market, partial dependence on clients and suppliers, and changes in par rates of exchange.

Expectations in subsidiaries

The group foresees better sales and revenues in almost all affiliates, the highest increases being expected for Pacific Silicon Sensor Inc. and Silicon Sensor GmbH. The other subsidiaries, too, will make profits so that consolidated results for 2006 can be expected to surpass those of 2005.

Expectation for the Group

In view of the group's proposed future development and results reported for the first quarter of 2006, another increase in sales and profits is anticipated for the year as a whole. A positive result is expected from ordinary activities as a result of all the proposed measures described above.

Developments after the accounting date

Effective January 1, 2006, Silicon Sensor International AG acquired the outstanding shares in Silicon Projects GmbH. Silicon Projects GmbH is now a fully-owned subsidiary of Silicon Sensor International AG. In addition, effective January 1, 2006, Silicon Sensor International AG acquired 100 % of the shares in Lewicki microelectronic GmbH from its subsidiary Silicon Sensor GmbH.

Berlin, March 15, 2006

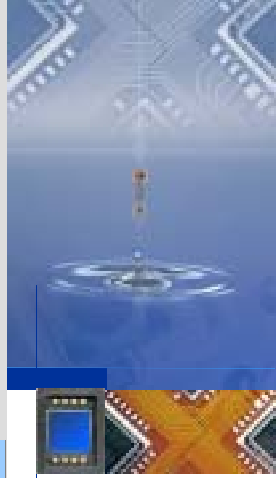
Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel　　　　Dr. Hans-Georg Giering

Consolidated Balance sheets

as of December 31, 2005 and 2004 (IFRS)

A S S E T S	*Note*	***Dec. 31, 2005*** *€ 1,000*	***Dec. 31, 2004*** *€ 1,000*
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*3*	4,752	3,780
Short-term investments	*4*	547	0
Trade receivables	*5*	2,999	904
Accounts receivable from associated companies		124	0
Inventories	*6*	4,372	3,360
Prepaid expenses and other	*7*	756	224
Total current assets		**13,550**	**8,268**
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	9,025	4,398
Intangible assets	*9*	6,206	133
Equity holdings in associated companies	*10*	416	0
Goodwill	*9*	11,142	1,846
Deferred tax assets	*25*	17	39
Other non-current assets		24	21
Total non-current assets		**26,830**	**6,437**
Total assets		**40,380**	**14,705**



Consolidated Balance sheets

as of December 31, 2005 and 2004 (IFRS)

LIABILITIES AND EQUITY	*Note*	***Dec. 31, 2005*** *€ 1,000*	***Dec. 31, 2004*** *€ 1,000*
LIABILITIES			
			*adjusted through**
CURRENT LIABILITIES			
Short-term loans	*13*	2,165	664
Trade payables		817	262
Accounts payable to associated companies		20	0
Advance payments received		132	138
Provisions	*11*	284	197
Liabilities from income tax		865	654
Other accounts payable	*12*	1,573	853
Total current liabilities		**5,856**	**2,768**
NON-CURRENT LIABILITIES			
Long-term debt	*14*	6,924	1,367
Employee benefits obligations	*15*	0	242
Provisions	*11*	60	39
Deferred tax liabilities	*25*	2,576	249
Deferred income	*16*	1,473	259
Total non-current liabilities		**11,033**	**2,156**
EQUITY			
Share capital	*17*	10,374	6,953
Reserves	*18*	10,899	3,391
Translation reserve		-140	-204
Retained earnings /loss		977	-362
		22.110	**9.778**
Minority Interests		1,381	3
Total Equity		**23,491**	**9,781**
Total liabilities and equity		**40,380**	**14,705**

* adjusted through the first-time application of IFRS 2

Consolidated Income Statements

for the fiscal year 2005 and 2004 (IFRS)

	4 th quarter Oct. 01, 2005 - Dec. 31, 2005 € 1,000	*4 th quarter Oct. 01, 2004 - Dec. 31, 2004 € 1,000*	*Note*	*Twelf - months report Dec. 31, 2005 € 1,000*	*Twelf-months report Dec. 31, 2004 € 1,000*
	**	**			*adjusted through**
Ordinary activities					
Sales	6,573	3,243	19	15,969	13,841
Other operating income	473	51	20	741	420
Increase / decrease in finished goods and work-in-process	22	-297	21	-27	-429
Own work capitalised	79	17		193	89
Cost of raw materials, supplies and purchased services	-2,633	-681	22	-5,245	-3,268
Personnel expenses	-2,228	-1,011	23	-5,879	-5,124
Depreciation and amortisation costs on intangible assets, and plant and equipment	-535	-556	9,10	-1,212	-1,274
Other operating expenses	-976	-196	24	-2,544	-2,165
Results of ordinary activities	**775**	**570**		**1,996**	**2,090**
Interest income	48	13		64	50
Expenses	-273	-36	24	-328	-188
Income from securities in current assets				22	0
Exchange gains	8	47		17	47
Exchange losses	-2	-92		-8	-92
Results before tax and minority interest	**578**	**502**		**1,763**	**1,907**
Income tax	-10	-8	25	-340	-531
Results for the period	**568**	**494**		**1,423**	**1,376**
Minority interest	-74	-3		-84	-3
Net earnings attributable to shareholders of SIS AG	**494**	**491**		**1,339**	**1,373**
Basic earnings per share:	**0.14**	**0.21**	26	**0.52**	**0.60**
Number of shares used for the calculation of basic earnings per share (in thousend)	3,458	2,276		2,554	2,276
Diluted earnings per share:	**0.14**	**0.22**	26	**0.51**	**0.60**
Number of shares used for the calculation of diluted earnings per share (in thousend)	3,458	2,290		2,601	2,290

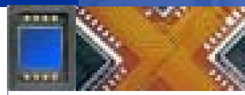
* adjusted through the first-time application of IFRS 2
** Quartaly numbers are given in accordance with the roules of Deutsche Börse AG and are not a part of the business report.

Consolidated Cash Flow Statements

for the fiscal year 2005 and 2004 (IFRS)

	Jan. 01 - Dec. 31, 2005 € 1,000	Jan. 01 - Dec. 31, 2004 € 1,000
		adjusted through**
Operating income/loss	1,996	2,090
Adjustments to reconcile the consolidated profit/ loss with cash flows from operating activities		
Depreciation of intangible assets and property, plant and equipment	1,212	1,274
Income from contributions	-120	16
Loss on the disposal of assets	4	3
Changes in provisions	-879	-19
Changes in assets not allocable to investing- or financing activities	1,130	994
Changes in liabilities not allocable to investing or financing activities	-612	-228
Income tax paid	-305	-84
Interest payments	-297	-175
Cash flow from operating activities	**2,129**	**3,871**
Investments in intangible assets and property, plant and equipment	-957	-474
Payments for the acquisition of shares in associated companies	-278	0
Payments for the acquisition of subsidiaries after deducting the liquid assets acquired	-15,575	0
Proceeds from the disposal of intangible assets, property, plant and equipment	24	28
Proceeds from government grants	80	0
Interest income	86	50
Cash flow from investing activities	**-17,167**	**-396**
Proceeds from issuance of share capital	10,813	358
Proceeds of loans	-8,812	-1,128
Deposits from financial borrowing	14,000	400
Payments from buying out the silent partner	0	-383
Cash flow from financing activities	**16,001**	**-753**
Net effect of currency translation on cash and cash equivalents	**9**	**-7**
Net increase in cash and cash equivalents	**972**	**2,715**
Cash and cash equivalents at beginning of year	3.780	1,065
Cash and cash equivalents at end of year*	4,752	3,780

* For composition and trend of financial resources we refer you to note 3 and 4.
** adjusted through the first-time application of IFRS 2



Consolidated Statement of changes in equity

for the years ended December 31, 2005 and 2004 (IFRS)

	Number of Shares '000	*Share Capital € 1,000*	*Reserves € 1,000*	*Other Reserves (Erläute-rung 18) € 1,000*	*Retained earnings € 1,000*	*Trans-lation reserve € 1,000*	*Minority Interests € 1,000*	*Total € 1,000*
Balance at December 31, 2003	**2,250**	**6,750**	**3,061**	**0**	**-1,671**	**-188**	**0**	**7,952**
Adjustment (Restatement) for IFRS 2			0	64	-64			0
Figures adjusted for December 31, 2003	**2,250**	**6,750**	**3,061**	**64**	**-1,735**	**-188**	**0**	**7,952**
Exercise of share options (explanation 15 and 17)	68	203	155	0				358
Share-based remuneration (explanation 15)				111				111
Curreny translation differences						-16		-16
Results for the period					1,373		3	1,376
Balance at December 31, 2004 adjusted through	**2,318**	**6,953**	**3,216**	**175**	**-362**	**-204**	**3**	**9,781**
Balance at December 31, 2004	**2,318**	**6,953**	**3,216**	**0**	**-187**	**-204**	**3**	**9,781**
Adjustment (Restatement) for IFRS 2				175	-175			
Balance at December 31, 2004 adjusted through	**2,318**	**6,953**	**3,216**	**175**	**-362**	**-204**	**3**	**9,781**
Exercise of share options (explanation 15 and 17)	28	84	27					111
Acquisition of minority holdings							1,294	1.294
Issue of registered capital (explanation 17)	1,112	3,337	7,676					11,013
Curreny translation differences						64		64
Total of results registered directly in equity capital (explanation 18)				-195				-195
Results for the period					1,339		84	1,423
Balance at December 31, 2005	**3,458**	**10,374**	**10,919**	**-20**	**977**	**-140**	**1,381**	**23,491**

Notes to consolidated accounts

as per Dec. 31, 2005 (IFRS)

1. General

Silicon Sensor International AG, Berlin (hereafter referred to as ‚SIS' or ‚the company' or ‚Silicon Sensor Group')) and its subsidiaries are active in sensor manufacture and microsystem technology, with the accent on the development, manufacture and distribution of user-specific optical semiconductor sensor systems of all types, and the development and production of hybrid ICs. Several affiliates of the group are active in the market as independent business units. Pacific Silicon Sensor Inc. (hereafter referred to as ‚PSS'), apart from developing and packaging customized optical sensors, essentially distributes sensor chips and systems of all types in the North American and Asian markets. Silicon Projects GmbH mainly provides IT support and/or assists distribution via an Internet platform. With affiliates utilizing synergistic effects on a larger scale, the average workforce was rose from 102 to 131 during the 2005 financial year. The SIS group is headquartered at Charlottenstraße 57 in Berlin/Germany.

2. Representation of accounting and valuation methods

Basic principles for the preparation of the accounts

The consolidated accounts have been prepared basically by applying the historical cost principle. The only exception is the financial assets that are available for sale; these are shown at their fair or market value.

Declaration of conformity with IFRS

The Group accounts of the Silicon Group have been drawn up in conformity with the International Financial Reporting Standards (IFRS) in the form in which they are to be used in the EU, and in euros. Unless anything to the contrary is stated, all amounts are shown as rounded multiples of a thousand euros (€'000).

Changes in presentation and valuation methods

The presentation and valuation methods applied correspond to those used in the preceding year with the following exceptions.

- The provisions of IFRS 2 have been applied for the first time to the period under review. The presentation of the stock options programs (IFRS 2, “Share-based Payment”) SOP 2002 has been used retroactively from the point in time of issue. The resultant expense has been distributed over the vesting period (the period of time during which the related advantages are earned) and included under cost of personnel with profit impact as € 45,000 (against € 111,000 in the comparable period a year earlier), and also as a transfer to the capital reserve. For comparison purposes the previous year's figures have been adjusted accordingly.

- The standards revised by the “improvement project” have been applied for the first time in the period under review. When compared with the 2004 accounts the only deviations from the previously applied accounting principles are in the adjusted presentation of the minority holdings in equity capital. As there were no positive balances in the comparable period a year earlier, the adjustment of this presentation did not lead to any change in the presentation of the comparison with the 2004 financial year.

Major judgmental decisions and uncertainties in estimates

Assumptions have been made in some cases in drawing up the consolidated accounts and estimated values have been used that have had implications for the amount and the presentation of assets and liabilities, and the income and expenses, shown in the balance sheet. The actual values may differ in individual cases at a later stage from the assumptions and estimates that have been made. Any such changes would have a profit impact at the point in time when better knowledge is available.

Impairment of goodwill

- The Silicon Group tests the value of its long-term assets for impairment on the basis of the provisions of IAS 36 annually. The basis for this impairment test is the future positive cash flow that will be generated by the individual assets or groups of assets amalgamated into cash-generating entities. The main long-term asset that is tested for impairment annually is the goodwill in each of the individual companies in the Silicon Sensor Group.

Application of IFRS in the financial year

The Silicon Group has not applied the following IFRS and IFRIC interpretations, which have been published but which it is not yet obligatory to apply, because it is not expected that these standards and interpretations will be relevant to the Silicon Sensor Group.

- IFRS 6 Exploration for and Evaluation of Mineral Resources,
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits – actuarial gains and losses, Group plans and data (amended, 2004),
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement Contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds
- IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
- IFRIC 7 Inclusion of IAS 29: Financial Reporting in Hyperinflationary Economies

The Silicon Sensor Group is assuming that the application of the changes described above will not have any influence on the consolidated accounts of the Silicon Sensor Group when first applied.

Consolidation policy

Subsidiary companies

The Group's consolidated accounts incorporate SIS and the companies it controls. The control results from the Group directly or indirectly holding more than 50 percent of the voting rights of the subscribed capital of a company and/or being able to control a company's financial and business policies in such a way that it can benefit from its activities. Minority holdings are part of the period results and the net assets of MPD, SIN, and SIP and that are attributable to shares that the Group does not hold. Minority holdings are shown separately from the parent company's equity capital in the net income statements and within the equity capital in the Group balance sheet.

The purchase method has been applied to the purchase of companies. Companies acquired in past years have been included in the Group accounts from the date of acquisition onwards.

The following companies have been included in the Group accounts as a fully consolidated subsidiary (SIS's shareholding and the existing voting rights are identical):

Company	Headquarters	Core activity	Interest share
Silicon Sensor GmbH	Berlin	Semiconductor sensor development/ manufacture/ distribution	100 %
Lewicki microelectronic GmbH	Ober-dischingen	Manufacture/ distribution of microelectronic components/ modules	100 %
Microelectronic Packaging Dresden GmbH	Dresden	Manufacture and sale of micro-electronic elements and groups of elements	84.03 %
Pacific Silicon Sensor, Inc	Westlake Village, USA	Development/ manufacture/ distribution of sensor systems, distribution of sensor chips	100 %
Silicon Projects GmbH	Berlin	Development/ manufacture/ distribution of soft/ hard-ware, Internet services	80 %
Silicon Instruments GmbH	Berlin	Development/ manufacture/ distribution of radiation sensor modules/ equipment	70 %

The following changes occurred in the 2005 financial year with regard to fully consolidated companies:

With the assent of the Supervisory Board, on September 12, 2005, SIS acquired 84.03 percent of the shares in Microelectronic Packaging Dresden

GmbH (hereinafter called “MPD”) under a contract of purchase dated September 16, 2005. By paying this purchase price on September 30, 2005, SIS took over management control by contract of MPD on October 1, 2005.

The acquisition of MPD has been shown in the balance sheet by the application of the purchase method, under which the acquisition costs of the merger are distributed over the acquired and identifiable assets and the acquired and identifiable liabilities and potential liabilities in accordance with their fair value at the point in time of the acquisition. In the consolidated accounts the expenses and income of MPD are accordingly shown that arose in the three months following the acquisition starting on October 1, 2005.

The provisional breakdown of the fair market values of the identifiable assets and liabilities of MPD at the point in time of the acquisition can be shown as follows

	New values	*Book values*
	€ 1,000	*€ 1,000*
Property, plant and equipment	3,618	3,618
Intangible assets	137	137
Developments	6,000	0
Equity holding	138	138
Cash and cash equivalents	425	425
Trade receivables	2,045	2,045
Inventories	1,143	1,143
Accrued expenses and other short-term liabilities	1,731	1,731
	15,237	**9,237**
Short-term loans	-527	-527
Trade payables	-251	-251
Provisions	-745	-745
Liability for profit taxes	-61	-61
Other accounts payable	-1,786	-1,786
Long-term loans	-1,343	-1,343
Deferred tax debt	-2,380	-46
Deferred income	-41	-41
	-7,134	**-4,800**
Fair market value of the net assets	8,103	4,437
Minority holdings at the fair market value of the net asset	-1,294	
Fair market value of the acquired net asset	6,809	
Goodwill from the acquisition	9,296	
	16,105	

A total of € 6 million was attributed, as part of the breakdown of acquisition costs, to non-tangible assets currently under development. They involve the following developments:

- Pressure sensors, automotive € 1.5 million
- Pressure sensors, commercial € 2.5 million
- Imaging sensors (camera) € 2.0 million

The basis for the evaluation of this development work was the various profit-and-loss scenarios weighted by their probabilities (the "expected cash flow" approach). The risk-adjusted discount rate lay between 20 and 30 percent, all according to the progress of the acquired project. The non-tangible assets are amortized over a period of 10 years on a linear basis once the development work is completed.

The acquisition cost of the company merger amount to a total of € 16,105,000.

	€ 1,000
Acquisition cost	
Cash payment	16,000
with the company acquisition	
Costs associated	105
	16,105

Since its acquisition MPD has contributed € 460,000 to Group results. If the merger had taken place at the beginning of the year, Group results would have been reduced by € 77,000 and sales revenue would have amounted to € 28,739,000.

The following changes took place within the fully consolidated companies during the 2004 financial year.

With the assent of the Supervisory Board on March 19, 2003, and after the termination of the contract of employment with the chief executive of Pacific Silicon Sensor Inc., USA ("PSS"), SIS acquired 15 percent of the shares (15,000 shares) in PSS. In consequence of this purchase the company holds 100 percent of the shares (100,000 shares) in PSS as of the closing date for the accounts. PSS was included in the Group accounts as a subsidiary in both 2003 and 2004.

Associated companies

Companies in which SIS holds between 20 and 50 percent of the equity capital and over which it exerts a major influence are classified as "associated" companies and presented in the balance sheet using the equity method. This means that proportional profits and losses from these companies are attributed in the same proportion as the holding. The company calculates the value of its shares in associated companies if there are indications that the assets have impaired or that an impairment in value that had been accounted for with profit impact in previous years no longer exists.

The purchase method is used likewise for the acquisition of associated companies. Associated companies that were acquired or disposed of during the course of the financial year are included with effect from the point in time of the acquisition or up to the point in time of the disposal.

During the 2005 financial year Heimann Sensor GmbH, of Dresden, and MPD Mitarbeiter GbR, also of Dresden, were excluded as associated companies from the Group accounts. They had been acquired through the acquisition of MPD.

Consolidation measures and uniform Group valuation

The annual accounts of the subsidiary and associated companies included in the Group accounts are based on uniform accounting standards and reporting periods/dates.

Intra-Group balances and transactions, the resultant intra-Group profits, and the profits and losses that are not realized between consolidated and associated companies are eliminated totally. Unrealized losses are eliminated only if the transactions have not resulted in any substantial indications of impairment in the transferred assets.

Foreign currencies

Euro is the functional currency of Silicon Sensor Group.

(a) Foreign currency transactions

In foreign currency transactions the amount in the foreign currency is converted at the exchange rate between the reporting currency and the foreign currency in force at the point in time at which the transaction took place. Conversion differences arising from the handling of monetary items at rates differing from those originally booked during the period and/or from the conversion as of the closing date for the account at the rates in force on the effective date have to be booked as expenses or income in the period in which they arose.

(b) Foreign subsidiary companies

All foreign subsidiary companies included in SIS's consolidation are regarded as economically autonomous foreign units, as they are autonomous in the financial, commercial, and organizational respects. Their reporting currencies are their respective national currencies. Their balance sheets are included in the consolidation and converted at the exchange rate in force on the closing date for the accounts. Their income statements are converted at the average rate of exchange. All resultant exchange-rate differences are booked in the equity capital without profit impact until the Group disposes of the net investment.

Liquid assets

Liquid assets include cash, fixed-term deposits, and sight deposits. The cash equivalents are short-term liquid financial investments with terms to maturity of three months or less that are only subject to insignificant risks of changes to their value.

For the purposes of the Group flow-of-funds account, cash and cash equivalents cover the cash defined above and short-term deposits, plus the current account credits of which use has been made.

Securities

All securities are publicly traded securities, and their fair market values are based on current prices. The Group's securities are categorized as financial assets available for sale and are valued at the prices in force on the closing date for the accounts.

The fair market values of securities classified as "held for trading" are adjusted with profit impact. The market values of securities in the "available for sale" category are booked in equity capital without profit impact.

Financial assets

Financial assets are basically broken down into the following categories:

- loans made by the company and its accounts receivable,
- financial investments held to maturity,
- financial assets held for trading, and
- financial assets available for sale.

Financial assets with fixed or predicable payments and fixed terms that the company intends to or can hold until final maturity, except for loans made by the company and its receivable accounts, are classified as financial investments to be held until final maturity. Financial assets acquired mainly in order to generate a profit from short-term price fluctuations are classified as financial assets held for trading purposes. All other financial assets with the exception of loans granted and accounts receivable are categorized as financial assets available for sale. The SIS Group classifies the financial assets it holds as loans made by the company and its accounts receivable (‚loans and receivables') or as financial assets available for sale.

When a financial asset is first booked it is valued at its acquisition cost, which represents the market value of the consideration made to its acquisition, including transaction costs. The financial assets resulting from the usual purchase and sale are then presented as of the trading day.

Loans and receivables are non-derivative financial assets with fixed or predictable payments that are not quoted in an active market. These assets are valued at their up-dated acquisition costs using the effective-interest method. Profits and losses are booked in the period results when the loans or receivables are booked out or written down, and in connection with amortization.

Financial assets available for sale are those non-derivative financial assets that are classified as available for sale and not placed in any of the three previous categories. After their initial valuation, financial assets held for sale are valued at their fair market value, with profits or losses booked as a separate line item in equity capital. At the point in time at which the financial investment is booked out or at which an impairment of value is identified for it, the cumulative profit or loss previously booked in equity capital is booked with profit impact in the income statement. The fair market value of financial investments traded on organized markets is calculated with reference to the bid price on the closing date for the accounts. Market values were available for the financial assets held by the SIS Group as available for sale on December 31, 2005, and December 31, 2004.

Financial assets are examined for impairment of value on each of the closing dates for the accounts. If it is probable that the company cannot collect all the amounts of loans, receivables, or financial investments held until maturity that are due under contractual terms on the financial assets presented in the balance sheet at their up-dated acquisition costs, so a write-down or write-off on the receivables is booked with profit impact. Any write-down previously booked with an expense impact is corrected with profit impact if the subsequent partial recovery in value (or reduction in write-off) can be objectively attributed to events occurring after the original write-down had been made. A recovery in value, however, is only booked insofar as it does not exceed the amount of the up-dated acquisition costs that would have been incurred if the write-down had not been made.

Trade accounts receivable and other short-term assets are shown at the market value of the counter-performance provided and at their updated acquisition costs after any write-downs have been made. Write-downs are made if there are indications that make it appear probable that an individual receivable will not be recoverable. Trade accounts receivable usually become payable at 30 to 60 days.

Financial assets or parts thereof are booked out when the Silicon Sensor Group loses its power of dispose over the contractual rights out of which the asset consists.

Risk management for financial instruments

The Group is partly active at the international level and is thus exposed to market risks on the basis of changes in foreign exchange rates. The company also finances itself to some extent from bank loans, which result in interest risks. During the 2005 financial year the company made hedging transactions to secure its interest risk. Foreign-exchange risks are reduced by the independent operational activities of PSS. The company's main financial instruments consist not only of trade accounts receivable but also of liquid assets and accounts payable to banks. The aim of these financial instruments is to finance the operating business. The main risks arise from bad-debt, liquidity, exchange-rate, interest, and market-value risks.

Bad-debt and liquidity risks

The Group uses its best endeavors to ensure that sufficient cash and cash equivalents or irrevocable lines of credit are available to it in order for it to meet its obligations in the coming years. For this purpose lines of credit totaling € 2,350 (2004: € 1.35 million) are available to it. The company also has approved capital available to it totaling € 37.800 (2004: €3,375,000) for further capital increases.

Bad-debt risks and the risk that a contractual partner will not be able to meet his payment obligations are managed by the use of loan undertakings, lines of credit, and control processes. To an appropriate extent the company obtains collateral in the form of rights over securities or enters into outline compensation agreements. The maximum bad-debt risk corresponds to the total amounts of financial lines shown on the asset side of the balance sheet.

Exchange-rate risk

As the Group companies mainly enter into transactions denominated in euros there is no significant exchange-rate risk, so there are no correspondingly significant collateral transactions. Foreign-currency risks are reduced by the independent operational activities of PSS.

Interest risks and Hedging

Loans granted to the company bear fixed rates of interest or, in the case of variable loans, are secured by interest swaps. Loans bearing a fixed rate of interest result in risks of interest-rate changes that could have an impact on the value of the loan. This risk is not considered to be significant.

The interest swaps are valued at their market values. The accrual of profits and losses from the collateralizing of planned revenue and costs is made after the deduction of deferred taxes and shown directly in equity capital as non-realized profits and losses. It is not until the collateralized underlying trades have been realized that the results are transferred to the income statement. The management of financial risks through the use of derivative financial instruments is described under Point 31.

Market value risk

The financial instruments in the SIS Group that are not presented at market value mainly include cash, trade accounts receivable, securities, other short-term assets, other long-term assets, trade accounts payable, and other liabilities.

The book value of the cash is closely approximate to its market value on account of the short term to maturity of these financial instruments. In the case of accounts payable and debts based on normal trade credit terms, the book value based on historic acquisition costs comes very close to the market value.

Accounts receivable

These are shown at depreciated historical costs following individual value adjustment for delinquent receivables.

Inventories

Raw materials and supplies used to manufacture inventories are not written down to a value below their initial or manufacturing costs if the finished products into which they are incorporated can presumably sold at or above production costs. In this connection, allowance is to be made for selling costs incurred. If, however, a decrease in the prices of these materials suggests that the production costs of the finished product will be above the net sale value, then the materials will be devalued to the net sale value.

In these circumstances the replacement costs of the materials may be the best available basis for determining their net sale value.

Work in progress and finished goods are valued at production costs or the lower market value. Production costs include direct personnel costs, material costs and the apportion able share of production overheads. Interest on borrowed capital is not activated. Obsolete and low-turnover items are reasonably revalued.

Tangible assets

These are shown at historical and production costs less accumulated depreciation. Interest on borrowed capital is not activated. Where tangible assets are retired, the historical costs and accumulated depreciation are taken out of the books and a profit or loss from retirement is recorded as effecting the current result.

Depreciation follows the straight-line method according to plan over the following years of service life.

Buildings	25 Yrs.
Plant and machinery	4 – 10 Yrs.
Other fixtures and fittings, tools and equipment	1 – 10 Yrs.

Regular checks on service life and depreciation methods make sure that economic benefit is in keeping with periods of depreciation.

Tangible assets in course of construction are activated at historical and production costs and depreciated from the date of completion and commissioning. Production costs include full production-related costs and prime costs and overheads incurred through work done by the company's own staff in the construction of plant, machinery, fixtures and fittings.

Maintenance and repair expenses are basically shown as affecting costs in the profit and loss statement.

Intangible assets

The SIS group activates intangible assets,

(a) if the company is the equitable owner due to past events;
(b) if they are assumed to yield an economic benefit for the company in future; and
(c) their costs can be reliably determined.

This applies where an intangible asset has been acquired externally. Internally produced intangible assets are shown at the incurred directly apportion able development costs provided all requirements specified in IAS 38.57 are met. Overheads which are necessarily incurred in producing the asset and can reasonably and progressively be apportioned to it are also activated. Cost activation ends when the product has been finished and generally released. IAS 38.45 specifies the following six requirements for activating development costs, which have all been fully met in the cases in question:

1. Technical feasibility of finishing the asset so that it becomes available for internal use and/or sale;
2. An intention to finish the intangible asset for use or sale;
3. A capacity to use or sell the intangible asset;
4. Proof of expected economic benefit;
5. The availability of adequate technical, financial and other resources for completing development and using or selling the intangible asset; and
6. The company's ability to reliably assess the expenses apportionable to the asset during development.

Intangible assets are shown at historical costs less accumulated depreciation and expiration. Pursuant to IAS 38 intangible assets are evenly depreciated over their estimated useful life, from the date of utilization. The depreciation period and schedule are reviewed at the end of each financial year.

(a) Software

New software is activated at its historical cost and shown as an intangible asset if these costs are not an integral part of the related hardware. Software is written off over 3 - 4 years using the linear method.

(b) Goodwill

The surplus in the acquisition costs of the shares in a company over the share in fair market value of the acquired company on the day of the transaction, minus its debts and contingent debts, is described as goodwill and shown in the balance sheet as an asset.

The company already applied IFRS 3 in conjunction with IAS on a voluntary basis in the 2004 financial year, and therefore no longer subjected goodwill to scheduled amortization. The cumulative amortization up to that point in time was offset against the historic acquisition costs of the goodwill.

Regardless of whether there are any indications of an impairment of value, the amount that could be realized for each cash-generating unit to which the goodwill belongs is calculated every year. If the book value is above the realizable amount, the figure is written down accordingly.

(c) Research and development costs

The expenses arising out of research and development activities are booked with profit impact in the period in which they are incurred.

No development costs were capitalized in 2005, nor in 2004, because the preconditions for capitalization were not met. The developments were therefore booked as expenses, and totaled € 965,000 in 2005 and € 479,000 in 2004.

(d) Permanent depreciation of long-term assets

Tangible and intangible assets are reviewed for possible depreciation whenever events or changes in external circumstances suggest that the value to be attached to the asset on the accounting date will be permanently below its book value. Where the book value of an asset exceeds the lower value attached, depreciation is shown for tangible and intangible assets estimated at historical or production costs. The value to be attached is the greater amount resulting from the net sale price and the utility value. The net sale price equals the amount obtainable by selling the asset in a normal transaction involving two competent parties. The utility value equals the cash value of the estimated future cash-flow to be expected from permanent use of an asset and its sale at the end of its useful life. The obtainable amount is to be estimated for each individual asset or, where this is impossible, for the smallest identifiable cash-generating unit.

Accrued liabilities

These are shown pursuant to IAS 37 for obligations whose due dates or amounts are uncertain. An accrued liability should be shown exclusively in cases where

(a) a current (legal or actual) obligation for the company has arisen from a past event,

(b) it is probable (with more aspects speaking in favor than against) that meeting the obligation requires a drain of economically beneficial resources, and

(c) the amount of the obligation can be reliably estimated.

The amount shown as an accrued liability on the accounting date represents the best possible estimate of the expenditure necessary to meet the obligation, i. e. the amount the company would have to pay on closer examination to meet the obligation on the accounting date or transfer payment to a third party.

Long-term provisions are discounted if their effect is essential.

Contingent liabilities shown in the notes are for obligations which may result from past events and depend on the (non)occurrence of one or more uncertain future events that are not fully under the company's control. They may also be due to a present obligation which derives from past events but has not been recorded because

(a) a drain of economically beneficial resources is not probable if the obligation is met; or

(b) the amount of the obligation can not be estimated with sufficient reliability.

No contingent liability is shown if the probability of a drain of economically beneficial resources from the company is low.

Liabilities

These present (legal or actual) obligations of a company which have resulted from a past event and, if met, will probably cause a drain of economically beneficial resources are shown as liabilities at accumulated historical costs unless they can be included under accrued liabilities.

Benefits to employees

Performance-oriented plans

The Group settled a performance-related pension plan for a former member of the Management Board in the 2005 financial year. In the preceding year the projected benefit obligation method had been used in order to determine the company's pension obligations and expenses. To determine pension obligations and expenditures, a cash procedure for accrued pension rights is used which provides for an extra proportion of the final benefit entitlement to be earned each year the employee is in the service of the company. Each of these modules is separately assessed, and all eventually make up the final obligation. When a new scheme starts or an existing one is improved, remaining working time to be apportioned is spread in a linear procedure over the average period prior to non-forfeiture of the accrued pension rights affected by the change of plan. To the extent that these rights are non-forfeitable immediately after the introduction of a plan, or changes to it, the working time to be apportioned is shown immediately as affecting income. Profits or losses from a reduction or discharge of pension benefits are shown as affecting income on the date of reduction or discharge. Actuarial profits or losses are fully shown as revenue and as affecting income. Pension obligations are determined at the cash value of estimated future cash-flows using a discount rate close to the rate of interest on government bonds whose currency and life correspond to the currency and estimated period of the performance-oriented obligation.

Contribution-oriented plans

In addition to the performance-oriented plans described there are contribution-oriented plans for two board members in the form of pension commitments undertaken by an inter-company pension fund to which the company pays fixed monthly contributions. Such group expenditures are offset each year with an effect on income. The same applies to expenditure for public pension schemes.

Stock options

The management and staff of the SIS Group have been granted options on the acquisition of the company's common stock.

The obligations and costs arising from the stock option plans are not shown in the income statement as personnel expenses when the options are granted. At the point in time at which the stock options are exercised, the payments received are shown on the balance sheet under equity capital.

Payments from public funds

These are systematically shown as revenue for the period in which the company incurred the expenditure relevant to the granting of the payment. Payments received are shown as deferred credits in the balance sheet. Revenue from winding up a deferred credit are offset against relevant expenditure.

Sales realization and profit booking

Sales of goods and products

Sales are realized in accordance with IAS 18 if the following conditions are met cumulatively:

(a) The SIS Group has transferred to the purchaser the risks and opportunities connected with the ownership of the sold goods.

(b) Neither a lasting right of disposal such as is usually associated with commercial ownership nor any effective control over the sold goods and rights remains with the SIS Group.

(c) The amount of the revenue can be reliably determined.

(d) It is sufficiently probable that the commercial benefit from the sale will accrue to the company.

(e) The costs incurred or still to be incurred in connection with the sale can be reliably determined.

In compliance with the principles described in IAS 18 of accruing income and expenses to the appropriate periods, income and expenses relating to one and the same transaction or other event are booked simultaneously.

Interest income

Interest is booked in proportion to time and takes account of the effective interest rate on the asset.

Income taxes

The actual tax refund claims and tax liabilities for the current period and for former periods are to be disclosed with the amount that is anticipated as refund from the tax authorities or due for payment to the tax authorities. These amounts are calculated on the basis of tax rates and tax laws applicable on the balance sheet date or that will apply shortly.

Deferred taxes are to be accrued by application of the asset and liability method to all temporary differences existing on the balance sheet date between the valuation of an asset or a liability in the Balance Sheet and the fiscal valuation. Deferred tax liabilities will be recorded for all taxable temporary differences. The following are exceptions to this:

- A deferred tax liability from the first valuation of goodwill or company value or of an asset or a liability in the case of a commercial transaction that is not a company merger and that at the time of the commercial transaction affects neither the commercial result for the period nor the taxable result can be disclosed.

- The deferred tax liability from taxable temporary differences arising in connection with holdings in subsidiaries and associated must not be disclosed as value if the course of the reversal of the temporary differences can be controlled and it is probable that the temporary differences cannot be reversed in the foreseeable future.

- Deferred tax claims shall be recorded for all tax-deductible temporary differences, hitherto unused tax loss carryforwards and hitherto unused tax credits to the extent that it is probable that there will be sufficient taxable income against which the tax-deductible temporary differences and the hitherto unused tax loss carryforwards and tax credits can be set off. The following exceptions apply:

- Deferred tax claims from tax-deductible temporary differences arising from the first valuation of an asset or a liability in the case of a commercial transaction that is not a company merger and that at the time of the commercial transaction affects neither the commercial result for the period nor the taxable result can be disclosed.

- Deferred tax claims from taxable temporary differences arising in connection with holdings in subsidiaries, associated companies and shares in joint ventures can be recorded only to the extent to which it is probable that the temporary differences will be reversed in the foreseeable future and there will be a sufficient taxable result against which the temporary differences can be used.

The book value of the deferred tax claims is reviewed at each balance sheet date and written off to the extent to which it is no longer probable that a sufficient taxable result will be available against which the deferred tax claim can be at least partially set off. Non-disclosed deferred tax claims will be reviewed on each balance sheet date and then disclosed to the extent to which it has become probable that a future taxable result will permit realization of the deferred tax claim.

Deferred tax claims and liabilities will be assessed on the basis of the tax rates which are expected to apply for the period in which an asset is realized or a liability is fulfilled. This procedure will be based on tax rates (and tax regulations) that are valid or announced on the balance sheet date. Income taxes relating to items that are disclosed directly in the equity capital should be included in the equity and not in the Income Statement.

Deferred tax claims and deferred tax liabilities are set off against each other when the group has an enforceable claim for setting off its actual tax refund claims against actual tax liabilities and these relate to income taxes of the same taxpayer that are raised by one and the same tax authority.

Leasing agreements

The decision on whether an agreement is or contains a leasing agreement is made on the basis of the commercial content of the agreement in question and requires an estimate of whether the fulfillment of the contractual agreement depends on use of a certain asset or certain assets and whether the agreement allows a right to use the asset.

Finance leasing agreements, in which generally all risks and chances associated with ownership of the transferred assed are transferred to the group, are capitalized at the start of the leasing agreement term at current value of the leased object to be attributed or at the cash value of the minimum leasing payments, if this latter value is lower. Leasing payments are divided into their constituents of financing expenses and repayment of the leasing obligation so that the remaining residual book value of the leasing debt is subject to interest at a constant rate. Financing expenses are disclosed immediately as an expense.

If the conveyance of ownership to the group at the end of the term of the leasing agreement is not sufficiently certain, leased items booked as assets will be written off in full over the shorter of the two periods from the term of the leasing agreement or the useful life.

Leasing payments for operating leasing agreements are booked as expense in the Income Statement according to the straight-line method over the term of the leasing agreement. A leasing agreement is classified as an operating-leasing agreement when generally all risks and chances relating to the ownership remain with the lessor.

Segments

Business segments: For better control and similar to the previous year, the group was divided into two operating areas for worldwide activities during the 2005 business year. These provide the background for presenting vital information. Financial data on business and geographic segments is provided in item 29.

Transactions between segments: Incomes, expenses and results given for segments involve transfers between divisions and geographic segments which are shown at general market prices as charged to non-affiliated customers. These transfers have been eliminated for consolidation.

Release for publication

In a meeting on March 20, 2006 the SIS Executive Board agreed to hand over the consolidated accounts as per Dec. 31, 2005 to the Supervisory Board.

3. Liquid funds

	2005	2004
	€ 1,000	€ 1,000
Check	0	10
Cash on hand	3	4
Bank deposits	4,749	3,766
	4,752	**3,780**

The item Liquid funds comprise cash and short-term investments with an original term of three months or less. The book value of these assets corresponds approximately to their attributable current value.

4. Securities

	2005	2004
	€ 1,000	€ 1,000
Securities held for trading purposes	0	0
Securities available for sale	547	0
	547	**0**

The securities of current assets are disclosed at current values. All securities are traded openly. The relevant current value therefore corresponds to the market value.

The adjustment to the current value led to a non-realized loss of less than € 1,000 on December 31, 2005.

5. Accounts receivable

	2005	2004
	€ 1,000	€ 1,000
Trade receivables	3,158	934
Less value adjustments on delinquent receivables	-159	-30
	2,999	**904**

Amounts from sales of goods that are probably uncollectible were value-adjusted at € 159,000 (2004: € 30,000). The amount of the value adjustment was determined on the basis of the previous default expense. Members of the board are of the opinion that the book value of accounts receivable (trade debtors) generally corresponds to the relevant current value.

6. Inventories

	2005	2004
	€ 1,000	€ 1,000
Finished goods and goods for resale at sale value, net	35	157
at historical/ production value	1,013	716
Subtotal	**1,048**	**873**
Work in progress at sale value, net	273	117
at production value	1,611	1,758
Subtotal	**1,884**	**1,875**
Raw materials and supplies at historical costs	1,440	612
Total	**4,372**	**3,360**

Value adjustments totaling € 299,000 (2004: € 1,088,000) were made for the manufacturing costs of inventory on the accounting date.

7. Accrued income and other short-term assets

	2005	2004
	€ 1,000	€ 1,000
Accruals	160	106
Tax refund claims	456	13
Others	140	105
	756	**224**

The tax refund claims generally relate to advance payments of capital yields tax of the MPD.

8. Tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Payments on account and construction in progress	2005 Total	2004 Total
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Historical costs	**3,401**	**5,793**	**2,994**	**145**	**12,333**	**11,947**
Additions	0	397	178	350	925	438
Increases through acquisition of a subsidiary	0	4,520	314	0	4,834	0
Disposals	0	-129	-62	-18	-209	31
Rebookings	0	151	1	-152	0	0
Monetary differences	0	18	22	0	40	-21
Dec. 31, 2005	**3,401**	**10,750**	**3,447**	**325**	**17,923**	**12,333**
Accumulated depreciation						
Jan. 1, 2005	**1,326**	**4,224**	**2,385**	**0**	**7,935**	**6,754**
Depreciation	109	766	250	0	1,125	1,194
Disposals	0	-126	-60	0	-186	0
Monetary differences	0	11	13	0	24	-13
Dec. 31, 2005	**1,435**	**4,875**	**2,588**	**0**	**8,898**	**7,935**
Net book value	**1,966**	**5,875**	**859**	**325**	**9,025**	**4,398**

The plant and machinery and fixtures and fittings of Silicon Sensor GmbH (hereinafter “SSO”) were assigned by way of collateral in the previous year to secure short-term credits.

The book value of plant and machinery of the group includes assets held on the basis of financial leasing at an amount of € 799,000 (2004: € 0).

In financial year 2004, the useful value of two machines in the “Order-related chip and component production” segment was adjusted due to the changed order situation. A non-scheduled depreciation of these machines amounting to € 294,000 was therefore undertaken. No non-scheduled depreciation was carried out in financial year 2005.

9. Intangible assets and goodwill

	Software	Goodwill	Develop-ment	payments on account	**2005 Summe**	2004 Summe
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Historical costs						
Jan. 1, 2005	**716**	**2.324**	**0**	**0**	**3.040**	**3.006**
Additions	22	0	0	10	32	36
Increases through acquisition of a subsidiary	127	9.296	6.000	0	15.423	0
Disposals	-4	478	0	0	-4	0
Monetary differences	4	0	0	0	4	-2
Dec. 31, 2005	**865**	**11.142**	**6.000**	**10**	**18.495**	**3.040**
Accumulated depreciation						
Jan. 1, 2005	**583**	**478**	**0**	**0**	**1.061**	**982**
Rebookings	88	0	0	0	88	80
Disposals	-4	478	0	0	-4	0
Monetary differences	2	0	0	0	2	-1
Dec. 31, 2005	**669**	**0**	**0**	**0**	**1.147**	**1.061**
Net book value	**196**	**11.142**	**6.000**	**10**	**17.348**	**1.979**

The goodwill on December 31, 2005 relates to Mircoelektronik Packaging Dresden GmbH, Dresden, (hereinafter “MPD”) and Lewicki microelectronic GmbH, Oberdischingen, (hereinafter “LME“).

SIS acquired 84.03 % of MPD in the financial year 2005. As the purchase price exceeds the current values of the identifiable assets and liabilities, SIS is assigned a provisional goodwill of € 9,296,000. The allocation of the current values to identifiable assets and liabilities is currently not yet completed. It therefore cannot be excluded that further assets and liabilities will be identified and the value for goodwill will change as a consequence.

Because the allocation of purchase price has also not been completed, it was not possible to verify the value for goodwill for MPD on December 31, 2005.

SIS has goodwill valued at € 1,846,000 from the acquisition of all shares in LME in financial year 2000.

According to IAS 36, a review of the goodwill of LME regarding a possible value reduction was carried out on December 31, 2005.

- A slight drop in sales in financial year 2006, followed by a slow increase in sales revenue, which, however, in the planning period remain below the sales figures for financial year 2004.
- In the 5-year review, it was assumed that changes in costs from material and personnel can be transferred in full to customers. Additional cost increases are not anticipated.
- Replacement and maintenance investments slightly below annual depreciation
- Discounting factor based on the WACC method at 7.38 %.

These considerations did not necessitate any value reduction in financial year 2005. No value reduction was also carried out for LME in financial year 2004.

10. Shares in associated companies

The associated companies that were valued at equity in 2005 contained the book values of the following companies:

	share	**2005**	2004
	%	***€ 1,000***	*€ 1,000*
Heimann Sensor GmbH	24.9%	268	0
MPD Mitarbeiter GbR	37.5%	148	0
		416	**0**

The shares of the shareholder (MPD), of Heimann Sensor GmbH and of MPD Mitarbeiter GbR were purchased by SIS on the basis of the company acquisition contract of 16 September 2005 with commercial effect on October 1, 2005. Because there is no possibility of control, the companies were booked at equity as associated companies of SIS.

	2005	2004
	€ 1,000	*€ 1,000*
Balance sheet share of the associated companies		
- short term assets	227	0
- long term assets	56	0
- short term liabilities	236	0
- long term liabilities	0	0
- equity	46	0
Sales and result share of the associated companies		
- Sales revenue	411	0
- Result	22	0
Book value of the shares in associated companies	416	0

11. Provision

	Warranty	Other	Total
	€ 1,000	*€ 1,000*	*€ 1,000*
Dec. 31, 2004	**196**	**40**	**236**
Additions	106	45	151
Increased through the acquisit subsidiary	48	0	48
Consumption	51	40	91
Dec. 31, 2005	**299**	**45**	**344**
Short-term	239	45	284
Medium/ long term	60	0	60
Dec. 31, 2005	**299**	**45**	**344**

An accrual was formed to cover warranty obligations from products sold in the past two years and booked as a liability. The valuation was undertaken on the basis of experience of costs of repairs and complaints. It can be anticipated that a major part of these costs will arise within the next financial year and the entire amount booked as liability will arise within two years of the balance sheet date. The assumptions on which calculation of the warranty provisions is based are derived from the current revenue level and the currently available information regarding customer complaints for sold products within the two-year warranty period.

12. Other short-term liabilities

	2005	2004
	€ 1,000	*€ 1,000*
For wages/ salaries	767	450
For sales tax	42	55
For social security	192	88
For wage/ church tax	139	67
Interest rate swap	50	0
Other	383	193
	1,573	**853**

13. Short-term loans

	2005	2004
	€ 1,000	*€ 1,000*
Collateralized		
Debts from finance leasing agreements and hire-purchase agreements		
2.06 % Interest	41	0
2.38 % Interest	6	0
2.43 % Interest	16	0
2.53 % Interest	92	0
Bank loan		
5.50 % Interest	45	0
5.90 % Interest	23	0
6.45 % Interest	311	0
6.75 % Interest	39	0
5.00 % Interest	67	67
5.15 % Interest	133	133
5.60 % Interest	267	267
6.90 % Interest	0	197
3-month Euribor	1,125	0
Total, short-term loans	**2,165**	**664**

The short-term credits are due in 2006 and also contain the short-term part of the long-term debts.

14. Long-term interest-bearing loans

	2005	2004
	€ 1,000	*€ 1,000*
Collateralized		
Loan from leased assets or lease agreements		
2.06 % interest	103	0
2.38 % interest	11	0
2.43 % interest	26	0
2.53 % interest	468	0
Bank loan		
5,50 % interest, due in 2009	106	0
5,90 % interest, due in 2008	43	0
6,45 % interest, due in 2009	51	0
6,45 % interest, due in 2007	269	0
6,75 % interest, due in 2009	71	0
5,00 % interest, due in 2009	167	234
5,15 % interest, due in 2007	67	200
5,60 % interest, due in 2009	667	933
3-month Euribor, due in 2013	2,625	0
3-month Euribor, due in 2009	2,250	0
	6,924	**1,367**

Part of the long-term loans are collateralized by pledge of shares in LME and a registered land charge. The net book value of asset items and liabilities of LME in the consolidated financial statement amounts to € 4,237,000 (previous year: € 4,238,000). The land charge amounts to € 1,380,000 (previous year: € 1,380,000).

For financing the purchase of the shares in MPD, SIS took out loans on September 30, 2005. On December 31, 2005, these loans comprised the following:

1. Tranche for EUR 1.5 million, variable interest (3-month Euribor + spread), term to 2009
2. Tranche for EUR 1.5 million, variable interest (3-month Euribor + spread), term to 2009
3. Tranche for EUR 1.5 million, variable interest (3-month Euribor + spread), term to 2013
4. Tranche for EUR 1.5 million, variable interest (3-month Euribor + spread), term to 2013

The Euribor measures 2.146 % in the first interest fixed-rate period in relation to the tranches of the long-term bank credits.

For long-term bank credits, a quarterly repayment on the last day of each quarter was agreed.

The loans are collateralized by pledge of shares in MPD.

All loan agreements are provided with an ancillary agreement providing for the following Financial Covenants to be observed by SIS:

- Minimum own capital requirement (own capital requirement at least 30% of the balance sheet total)
- Capital service cover (ratio between EBITDA and capital service at least 1.75)

If SIS fails to fulfill the above obligations, the lender reserves the right to obtain or extend the bank's collateral.

SIS undertook to enter into a suitable interest-rate hedging transaction for tranches 2 and 3 of the long-term bank credits in the form of an interest-rate swap or an interest-rate cap on the basis of the framework agreement for financial futures transactions with the bank at the loan amount for the period up to December 31, 2009 or December 31, 2013 and to sell or otherwise dispose of any of the interest-rate hedging instruments during the said period(s) only with the consent of the bank. The interest-rate hedging instruments are shown in Information 31.

15. Obligations for benefits to employees

Pension plans

The company dissolved its pension undertakings for a member of the board in financial year 2005. There were therefore contribution-oriented undertakings for only two further member of the board at the balance sheet date.

The amount of benefits for the pension commitment which still continues to exist on the accounting date depends on years of service and salary in each case. Provisions are made for pensions covering payable benefits in the form of old age, disability and survivor's pensions.

Provisions for pensions were determined on the basis of actuarial principles using an accrued pension right cash value procedure.

The amount of the expected pension obligation accrued in the balance sheet was € 0 on the accounting date, Dec. 31, 2005 (previous year: € 242,000).

Pension expenses contained in personnel expenditure can be subdivided as follows:

	2005 *€ 1,000*	2004 *€ 1,000*
Current working hours reqd.	0	13
Recorded actuarial net profits/losses	0	-12
Interest costs on obligations	0	12
Total pension expenses (revenues)	**0**	**13**

Movement within the obligation shown in the balance sheet is as follows:

	2005 *€ 1,000*	2004 *€ 1,000*
Net liabilities at the beginning of the year	242	229
Pension expenses covered in profit/loss statement	-242	13
Net liabilities at year's end	**0**	**242**

The following basic actuarial assumptions were used to determine pension obligations as per Dec. 31, 2004:

	2004 %
Discount rate	5.35
Pension adjustments	2.0
Future wage/ salary rises	2.0

The board member to whom the pension commitment related died on Jan. 10, 2005.

The rights under an insurance contract are shown as an asset because the company itself is the party insured.

The value of the insurance claim was € 95,000 on Dec. 31, 2005 (previous year: € 95,000) and is shown under other short-term assets on the balance sheet as it is to be liquidated shortly.

Apart from paying into the public pension scheme at the tune of € 340,000 (2004: € 269,000), the company makes payments into contribution-oriented pension plans for the three SIS board members amounting to € 157,000 (2003: € 177,000).

Stock option plan

Stock option plans drawn up in 2001 (SOP 2001) and 2002 (SOP 2002) provide for granting options on capital stock to employees and members of the SIS Executive board. In this connection, the exercise price per share equals the market price of these shares at the Frankfurt stock exchange for a 5-day period prior to granting the options. The longest period for an option is 5 years.

Shares bought after exercising an option have full voting and dividend rights.

Stock options may only be exercised after a waiting period of two years from the date of issue, and subject to these conditions:

(a) As a condition for exercising option rights, the exercise hurdle must have been reached at least once over a period of 6 weeks prior to exercise ("exercise window"). The hurdle is reached if the closing price of the company's share in XETRA trading (or a comparable follow-up system) exceeds the average exercise price by more than 10 % on five successive trading days (SOP 2001, SOP 2002) or the performance of the company's share over a period from granting the stock option until the date on which an exercise window opens exceeds the average performance of all shares in the NEMAX ALL SHARE Index (or a comparable follow-up index - the NEMAX ALL SHARE was discontinued in March 2003) by at least 5 % in the same period. Exercise ceilings for share options issued in business years 2001 - 2003 were reached during business year 2004.

(b) Option rights may not be exercised in the two weeks preceding the announcement of quarterly results, and in the period from the end of the financial year until the announcement of annual results (holding periods). This also applies if an exercise window should open during holding periods.

During the 5-year period of stock option plans no more than 205,000 (SOP 2001: 120,000; SOP 2002: 85,000) option rights may be issued. These rights may be called in annual portions of no more than 33 1/3 % (SOP 2001) or 50 % (SOP 2002). During financial year 2001, 40,000 options were granted to employees and managers, the figures for 2002 were 82,500 and for 2003 82,500. Issue prices are equal to market prices of SIS shares at the time of issuing the options. Exercise ceilings for share options issued in business years 2001-2003 were reached during business year 2004.

(c) Options expire when the exercise period is over, i. e. 5 years after the end of the 2-year waiting period. Option rights are not transferable, except in cases where the beneficiary dies after acquiring the options. His heirs may then take up the options once at the same conditions. If the employment contract/group relationship is terminated by the company or the beneficiary, or otherwise terminated for whatever reason, then any options which may not be exercised before the date of termination of the employment contract/group relationship become invalid. Beneficiaries may use option rights which may be exercised before the termination date only during the exercise window following the termination date.

The following table illustrates the number and the weighted average preferential prices (GDAP) of the share options granted during the financial year:

	2005 Numberl	2005 GDAP	2004 Number	2004 GDAP
Outstanding at beginning of the reporting period	137,500[1]	€ 4.19	205,000[2]	€ 4.56
Granted during the reporting period	0		0	
Exercised during the reporting period	28,000	€ 3.97[3]	67,500	€ 5.31[4]
Outstanding at end of the reporting period	109,500	€ 4.24	137,500[1]	€ 4.19
Exercisable at the end of the reporting period	109,500[5]	€ 4.24	55,000	€ 5.14

[1] This includes options for purchase of 55,000 shares that were not recorded in accordance with IFRS 2 as the options were granted on or before November 7, 2002. The contractual regulation of these options was not amended retroactively, and these options therefore do not have to be treated in accordance with IFRS 2.

[2] This includes options for purchase of 122,500 shares that were not recorded in accordance with IFRS 2 as the options were granted on or before November 7, 2002. The contractual regulation of these options was not amended retroactively, and these options therefore do

not have to be treated in accordance with IFRS 2.

[3] The average share price at the time the option is exercised measures € 10.63.

[4] The average share price at the time the option is exercised measures € 8.85.

[5] This includes options for purchase of 48,500 shares that were not recorded in accordance with IFRS 2 as the options were granted on or before November 7, 2002. The contractual regulation of these options was not amended retroactively, and these options therefore do not have to be treated in accordance with IFRS 2.

The weighted average remaining contract term for the options outstanding on December 31, 2005 is 3.91 years (2004: 4.97 years).

The option exercise prices for options outstanding at the end of the period of the report are in the range between € 3.55 and € 6.39 (2004: € 3.55 – € 6.39).

The following parameters were included in the Black-Scholes model for assessing option values:

	2005 ***€ 1,000***	2004 *€ 1,000*
Average share price	€ 3.45	€ 3.45
Average exercise price	€ 3.55	€ 3.55
Anticipated volatility	74.63 % p.a.	74.63 % p.a.
Anticipated life	7 years	7 years
Non-risk interest rate	3.65 %	3.65 %
Anticipated dividend	0 % p.a.	0 % p.a.

The anticipated volatility is determined by calculating the average historical volatility of the share price of the group over the past 5 years. The anticipated life span taken for the model calculation was adjusted by the management according to the best possible estimate in order to take all due account of the special features of employee options, specifically their non-transferability, exercise restrictions and their remuneratory character.

16. Accrued items

Accrued items relate to public allowances.

These developed as follows:

	2005	2004
	€ 1,000	*€ 1,000*
Jan. 1	**259**	**354**
Increase from acquisition of a subsidiary	1,299	0
Granted during the financial year	23	0
Dissolved with effect on profit	108	95
Dec. 31	**1,473**	**259**
Short-term	295	94
Medium-term/long-term	1,178	165
	1,473	**259**

17. Subscribed capital

The capital stock, disclosed in the Balance Sheet as subscribed capital, measured EUR 10,374,000 on the balance sheet date 31 December 2005 and is made up of 3,457,900 no-par shares at an accounting nominal value of EUR 3. The change in the capital stock of SIS can be presented as follows:

	Nominal shares (issued and paid up) (€ 1,000)		Amount of capital stock (€ 1,000)	
	2005	2004	**2005**	2004
Jan. 1	**2,318**	**2,250**	**6,953**	**6,750**
Issue of new shares through cash capital increase	1,112	0	3,337	0
Issue of new shares from the stock option plan	28	68	84	203
Dec. 1	**3,458**	**2,318**	**10,374**	**6,953**

By partially using the authorization granted by the Shareholders' Meeting, the Executive Board decided on September 12, 2005 – subject to the consent of the Supervisory Board and pending completion of the acquisition of 84.03 % of shares in MPD from Zentrum Mikroelektronik Dresden AG, Dresden – to increase the capital stock of the company by up to € 3,337,200.00 from € 6,952,500.00 to up to € 10,289,700.00 against cash deposit by issuing up to 1,112,400 new ordinary shares in the name of the bearer in the form of no-par shares with an accounting share of capital stock of € 3.00 per share (the "new shares").

The Supervisory Board gave its consent to the decision of the Executive Board on the same date September 12, 2005. The agreement between the company and Zentrum Mikroelektronik Dresden AG, Dresden, regarding the takeover of shares in MPD GmbH was signed on September 16, 2005.

The new shares are entitled to a profit share as of January 1, 2005. Shareholders were granted the statutory subscription right in that VEM Aktienbank AG, Munich, was authorized to subscribe and take over the up to 1,112,400.00 new shares at the issue amount of € 9.90 per share with the obligation to offer these to the shareholders at a ratio of 25:12 against payment of € 9.90 per share. The subscription offer can be exercised in the period September 30 to October 13, 2005 (inclusive). The capital increase was entered in the commercial register of the company on October 27, 2005.

The remaining authorized capital thus measures € 37,800 on December 31, 2005.

The Executive Board is authorized to decide, with the consent of the Supervisory Board, to exclude the subscription right for shareholders. Such exclusion of subscription right is possible only in the following cases:

- as compensation for peak amounts;
- so that shares can be issued to employees of the company;
- to acquire deposits in kind, specifically in the form of companies or shares in companies;
- when the capital increase against cash deposits does not exceed 10 % of the capital stock and the issue price of the no-par shares is not significantly below the market price;
- for the purpose of further placement of shares as part of stock-market introduction of shares of the company.

There is furthermore also authorized capital at an amount of € 615,000 for the issue of 205,000 new no-par shares in the name of the bearer with right to profit share as of the start of the financial year in which they are issued (Authorized Capital I, II). The capital increase will be carried out only if the holders of subscription rights exercise their subscription rights in the course of the share option plans 2001 and 2002.

The company's capital stock was moreover also increased by up to € 600,000 by issue of 200,000 new no-par shares in the holder's name with profit share from the start of the financial year when they were issued (Authorized Capital III). The authorized capital increase will be carried out up to December 31, 2006 only to the extent that the owners of the convertible and option debenture bonds exercise their convertible or subscription rights. The new shares are entitled to a share in profit from the start of the financial year in which they arise through the exercise of convertible or option rights.

In the financial year, 17,500 (2004: 47,500) option rights of the Authorized Capital I and 10,500 (2004: 20,000) option rights of Authorized Capital II were exercised as part of the stock option program for employees. A total of 28,000 (2004: 67,500) new no-par shares were accordingly subscribed and the capital stock increased accordingly by € 84,000 (2004: € 203,000).

The entire Authorized Capital (Authorized Capital I, II and III) on the balance sheet date thus measures € 928,500.00 (2004: € 1,012,500.00).

18. Reserves

The reserves developed in financial year 2005 as follows:

	Kapital-rücklage	Gewinn-rücklage	Unrealisierte Gewinne/ Verluste	Gesamt
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
January 1, 2004	**3,061**	**0**	**0**	**3,061**
Adjustment of first application of IFRS 2	0	64	0	64
January 1, adjusted	**3,061**	**64**	**0**	**3,125**
Agio from the issue of new shares through the exercise of share options	155	0	0	155
Share-based payment	0	111	0	111
December 31, 2004	**3,216**	**175**		**3,391**
Agio from the issue of new shares through cash capital increase	7,676	0	0	7,676
Agio from the issue of new shares through the exercise of share options	27	0	0	27
Share-based payment	0	45	0	45
Unrealized losses from the securities available for sale	0	0	0	0
Increase in the current value of interest-rate hedging derivatives	0	0	-50	-50
Transaction costs of capital increase	0	-190	0	-190
31. Dezember 2005	**10,919**	**30**	**-50**	**10,899**

In financial year 2005, a total of 28,000 (2004: 67,500) new shares were subscribed as part of the share option program for employees. The agio exceeding the nominal value amounting to € 27,000 (2004: € 155,000) was transferred to capital reserves.

The regulations of IFRS 2 were applied for the first time in the period of the report. The booking of share option programs (IFRS 2 “Share-based remuneration”) SOP 2002 was retroactive to the date of issue. The resulting expense was spread over the Vesting Period (period in which the relevant advantages are obtained) and disclosed in personnel expenses with affect on profit at € 45,000 (€ 111,000 in the previous year) and included in the balance sheet as addition to retained earnings. The presentation for the previous year was adjusted to facilitate comparison.

The retained earnings also include the costs arising from the issue of new shares for official charges, legal advisors, auditors and other professional consultants as deduction from equity capital (reduced by all related income tax advantages).

The reserves for non-realized profits / losses comprise changes to the current value of financial investments available for sale. This reserve item also includes the part of the profit or loss from a hedging instrument for securing cash flow, which is calculated as an effective hedging.

The equity capital also includes a reserve for foreign currency differences (currency exchange equalization items). The purpose of this reserve is to record differences due to the conversion of the annual financial statement of the foreign subsidiary. It also serves to record the effects of the hedging of net investments in foreign business operations.

19. Sales revenue

	2005		2004	
	€ 1,000	%	€ 1,000	%
Germany	12,173	76.23	11,634	84.06
Europe	2,667	16.70	1,172	8.47
Israel	14	0.09	13	0.09
USA	1.115	6.98	1.022	7.38
	15,967	**100.00**	**13,841**	**100.00**

20. Other operating income

This is composed as follows:

	2005	2004
	€ 1,000	€ 1,000
Revenue from grants		
• Investment grants	108	22
• Investment subsidies	58	73
Income from other payment in kind	155	84
Below-the-line items	**22**	**55**
Insurance recoveries	9	22
Income from public subsidies	293	5
Others	95	159
	740	**420**

21. Changes in inventory of finished goods and work in progress

	2005	2004
	€ 1,000	€ 1,000
Work in progress	92	-407
Finished goods	-65	-22
	27	**-429**

22. Cost of raw materials, supplies and purchased services

Expenses for material and purchased services are composed as follows:

	2005 € 1,000	2004 € 1,000
Raw materials and supplies	4,550	2,733
Purchased services		
• Assembly	314	343
• Material machining	2	8
• Implantation	103	120
• Other	276	64
Total, purchased services	**695**	**535**
	5,245	**3,268**

23. Personnel expenses

These are composed as follows:

	2005 € 1,000	2004 € 1,000
		*adjusted**
Wages, salaries	4,931	4,100
Social insurance contributions including old-age	948	1,024
	5,879	**5,124**

* adjusted through the first-time application of IFRS 2

24. Other operating costs

These include the following items:

	2005 € 1,000	2004 € 1,000
Rentals, space costs	381	287
Costs of investor / public relations	124	245
Goods delivery costs	118	154
Auditing, preparation of annual/interim accounts, bookkeeping costs	167	164
Advertizing expenses	191	142
Maintenance expenses	144	134
Insurance	136	132
Leasing costs	93	119
Travel/ entertainment expenses	122	104
Motor vehicle costs	97	79
Legal/ consulting expenses	110	61
Costs of General Meeting	50	45
Outgoing freights	49	42
Communication costs	43	40
Directors' fees	36	39
Warranty	19	34
Losses due to the disposal of fixed/current assets	17	30
Incidental costs of money transactions	22	18
Packaging	67	13
Patent costs	3	8
Others	555	275
	2,544	**2,165**

25. Tax on income and profits

The general elements in income tax expenditure for financial years 2005 and 2004 are made up as follows:

	2005	2004
	€ 1,000	*€ 1,000*
Actual tax expense	440	560
Adjustments for non-period actual income taxes recorded in the period	-226	0
Deferred tax expense / (income) from the reversal of temporary differences	5	-29
Deferred taxes from items directly deduced from equity	121	0
Income tax expenditure disclosed in the consolidated Income Statement	**340**	**531**

The deferred taxes from items deducted directly from equity incurred in financial year 2005 relate to taxes on the costs of capital increase deduced directly from equity.

The adjustments for non-period actual income taxes recorded in the period contain advance tax payments by MPD for the period before its inclusion in the consolidated group.

The reconciliation between income tax expenditure and the product from the accounting result for the period and the applicable tax rate of the group for financial years 2005 and 2004 is made up as follows:

The reconciliation of the effective tax rate to the statutory tax rate is carried out as follows:

	2005	2004
	€ 1,000	*€ 1,000*
Profit before income taxes	**1,763**	**2,018**
Tax expenses at booked tax rate	**686**	**785**
Reconciliation at disclosed income tax expenditur		
Adjustment for non-period actual income taxes	-226	0
Use of tax loss carryforwards	-110	-232
Tax-free income	-10	-8
Other	0	-14
Tax expense	**340**	**531**

Notes to consolidated accounts

The deferred income taxes consist of the following at the balance sheet date:

	Consolidated Balance Sheets		Consolidated Income Statements	
	2005	2004	2005	2004
	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Provisions for pensions	0	24	-24	2
Other provisions	17	15	2	15
Deferred income tax claims	17	39		
Assessment of the securities available for sale at the current value	5	0	5	0
Adjustment to current value on purchase (developments)	2.334	0	0	0
Land LME	237	249	12	12
Deferred income tax debts	2.576	249		
Deferred income tax expenditure/income			-5	29

The income taxes comprise the income taxes and all deferred taxes that were or are to be paid in the different countries.

Income taxes comprise corporate tax, trade earnings tax, solidarity surcharge tax and relevant foreign taxes. In the Federal Republic of Germany, the income tax rate on distributed and retained results was a standard rate of 25 % as of 2001. A solidarity surcharge tax is furthermore raised on corporate tax at a rate of 5.5 %. The trade tax is charged, depending on the municipality, at rates between 15.25 % and 17.01 %.

In financial years 2005 and 2004, the weighted average tax rate of the group (corporate tax, trade tax and solidarity surcharge tax) taken as a basis for calculating the deferred taxes is 38.9 %. As it is assumed in the group's current tax plans that no significant affects on the over result will be obtained from foreign group subsidiaries in the short-term/medium-term, which would lead to further income tax debts, no possible effects from deviating foreign tax rates are taken into account. Correspondingly, all loss carryforwards from foreign group subsidiaries are not capitalized in full.
Deferred taxes are formed in order to take account of all significant temporary differences between the individual financial statement and the tax balance sheet and the temporary differences on the basis of consolidation adjustments. Deferred tax claims are also included as assets when no used tax loss carryforwards exist. In previous financial years, the taxes arising on the basis of the losses/loss carryforwards were not booked as assets, as the possibility of their use was not sufficiently certain. PSS did have tax loss carryforwards in financial year 2005.

The diagram shows the amounts of tax loss carryovers for individual affiliates of the group:

	2005		2004	
	€ 1,000		€ 1,000	
SIS	0	*	0	*
PSS	808	*	1,055	*
SII	0	*	37	*
SIP	0	*	0	*
	1,092		1,092	

* Estimated as these companies have not filed tax returns/ received tax bills

The loss carryforwards of PSS will be eliminated after approx. 20 years.

26. Net earnings per share

Undiluted figures for these earning are obtained by dividing the current result apportionable to common shareholders (profit for the period less dividends on preference shares) by the weighted average of the number of ordinary shares in circulation during the period.

To calculate the diluted net earnings per share, the effects of option rights from the exercise of stock options is eliminated from the weighted average of the number of ordinary shares in circulation during the period (see explanation 15). The number of option rights results as a weighted average of the number of ordinary shares in circulation plus the weighted average of the number of ordinary shares that would be issued as ordinary shares if all option rights were converted into ordinary shares. The hurdles for exercising options issued so far have not been cleared as yet so that no dilution of the net earnings per share can occur.

During the 2004 business year the expiry dates were reached for part of the options granted previously, diluting the net earnings per share. These expiry dates had not been reached in the 2003 financial year.

	For the 2005 business year		
	Profit for the period	**Weighted average no. of shares (1,000)**	**Net earnings per share**
Accounting profit to be attributed to shareholders	1,339		
Undiluted net earnings per share			
Accounting profit available to ordinary shareholders	1,339	2,554	**0.524**
Diluted net earnings per share			
Accounting profit available to ordinary shareholders	1,339	2,601	**0.515**

	For the 2004 business year		
	Profit for the period	**Weighted average no. of shares (1,000)**	**Net earnings per share**
Accounting profit to be attributed to shareholders	1,373		
Undiluted net earnings per share			
Accounting profit available to ordinary shareholders	1,373	2,276	**0.603**
Diluted net earnings per share			
Accounting profit available to ordinary shareholders	1,373	2,290	**0.599**

27. Notes on cash flow statement

SIS shows cash flow from current trading in keeping with IAS 7 'Cash flow statement' using the indirect method where the effects of transactions which do not affect payments, accruals and deferrals of the inflow and outflow of funds from current trading in the past or future, and revenue and expense items in connection with cash flow from investment or financing activities serve to adjust profit or loss for the period. Translation is based on the operating result so that interest and tax payments are shown separately as part of the operating cash flow.

For the composition of funds please refer to Note 3.

28. Contingent liabilities and other financial obligations

There are other financial obligations from the rental of office premises and office equipment, from the leasing of vehicles and from allowances from contribution-oriented pension plans. The leasing agreements have an average term of between 3 and 20 years and do not contain any extension options. The lessee is not enjoined to accept any obligations when these leasing agreements are being concluded.

	2006	2007 - 2009	as of 2010
	€ 1,000	*€ 1,000*	*€ 1,000*
Rental, leasing	744	1,978	2,636
Contribution-oriented pension plans	196	769	879
	940	**2,747**	**3,515**

Rental and leasing expenditure incurred over the entire contract period was € 1,001,000 (previous year: € 472,000). Total rental and leasing liabilities affecting expenditure for the 2004 business year were € 407,000 (previous year: € 387,000) as shown in the profit and loss statement.

The group has entered into finance leasing agreements and hire-purchase agreements for various technical plant and operating and business equipment. The future minimum leasing payments from finance leasing agreements and hire-purchase agreements can be reconciled with the cash value as follows:

	2005	
	Minimum leasing payments	Cash value of minimum leasing payments
	€ 1,000	*€ 1,000*
Within one year	205	192
Between one and five years	652	571
Total minimum leasing payments	857	
Less interest expense due to discount	-94	
Cash value of minimum leasing payments	**763**	**763**

There were no finance leasing agreements and hire-purchase agreements in financial year 2004.

29. Segment reporting

This is provided on the following basis:

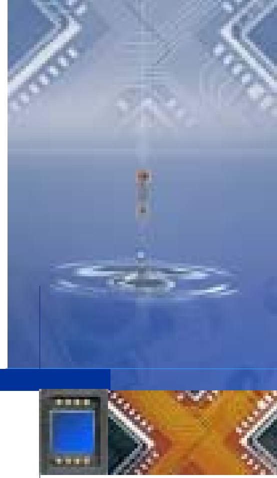
(1) Business divisions

Application-oriented chip and component manufacture

In this segment, the group primarily develops and manufactures high-quality user-specific silicon sensors which have uses, for instance, in the geodetic surveying of the earth, and in monitoring the blood and circulatory functions of astronauts. In addition, chips are made into customized hybrid ICs and modules.

Other products

These include clinical sensor applications for the extra/intraoperative detection of tumor cells. More particularly, the segment makes semiconductor radiation sensors for industrial and laboratory use and PC measuring systems for coating thickness measurement, PET radiochemistry and dosimetry.



Business Segment Data

	Custom-designed production		Other production		Elimination		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	€ 1,00(	€ 1,000	**€ 1,000**	€ 1,00(	**€ 1,00(**	€ 1,000	**€ 1,000**	€ 1,000
Sales								
External sales	15,681	13,660	288	181	0	0	15.969	13.841
Intercompany turnover	43	10	0	80	-43	-90	0	0
Total	**15.724**	**13.670**	**288**	**261**	**-43**	**-90**	**15.969**	**13.841**
Result								
Segment result	1.963	2.165	33	36			1.996	2.201
Interest revenue/ expense							-264	-138
Currency earnings/ losses							9	-45
Income from securities of current assets							22	0
Income tax							-340	-531
Minority interests							-84	-3
Profit							**1.339**	**1.484**
Assets								
Segment assets	39.590	14.213	409	441			39.999	14.654
Latent tax claims							17	39
Tax refund claims							364	12
Sum of assets							**40.380**	**14.705**
Debts								
Segment debts	4.251	1.818	108	172			4.359	1.990
Latent tax liabilities							2.576	249
Short-term loans							2.165	664
Tax liabilities							865	654
Long-term interest-bearing loans							6.924	1.367
Sum of debts							**16.889**	**4.924**
Other information								
Investments	954	471	3	3			957	474
Depreciation	1.201	1.262	11	12			1.212	1.274
Other expenditure not affecting payments		108		5			0	113

(2) Geographical segments

Sales	**2005**	2004
	€ 1,000	*€ 1,000*
Germany	12,173	11,634
Europe	2,667	1,172
Israel	14	13
USA	1,115	1,022
	15,969	**13,841**

Assets	**2005**	2004
	€ 1,000	*€ 1,000*
Germany	39,032	13,931
USA	967	731
Segment assets	**39,999**	**14,662**

Investment	**2005**	2004
	€ 1,000	*€ 1,000*
Germany	925	465
USA	32	9
	957	**474**

30. Transactions between affiliated companies and persons

(1) Transactions with associated companies/ persons

As part of its normal business, the group has effected transactions with associated companies and persons that are treated as outside third parties, including

a.) a contract dtd. July 20/24, 1995 under which BayBG Bayerische Beteiligungsgesellschaft mbH acquired a share of € 383,000 in SSO as a typical dormant equity holding. This led to expenditure in the form of interest, consulting and dividends worth € 0 in 2005 and € 35,000 in 2004.

The dormant equity holding was redeemed on Oct. 1, 2004.

The balance sheet lists the following amounts as deriving from transactions with affiliated persons:

(2) Allowances from the management contracts of associated persons (on the Executive/Supervisory Boards) also go to the executive bodies of affiliated companies listed in the consolidated accounts.

	2005 Allowances	2004 Allowances
	€ 1,000	*€ 1,000*
Allowances paid under management contracts		
	1,028	**1,014**

No options for SIS shares were granted to members of the Managing Board and directors of subsidiaries in 2005 under the share option plan (2004: 0). During the 2005 business year, 19,000 options were exercised, of these 2,000 for an issue price of € 6.39, another 2,000 for an issue price of € 4.11, and 13,000 for an issue price of € 3.55. Total options held by members of the Managing Board and directors of subsidies on the balance sheet date thus amounted to 72,000 (2004: 91,000). A new board member has a performance-oriented pension commitment, while the group pays into contribution-oriented schemes for two other members, see Note 15.

31. Financial instruments

The principal financial instruments used by the group – with the exception of derivative financial instruments – comprise bank loans and overdrafts on current accounts, finance leasing agreements and hire-purchase agreements and currency and short-term investments. The main purpose of these financial instruments is to finance the group's business operations. The group has various further financial assets and liabilities, such as trade receivables and payables that arise directly as part of its business activities.

The group also carries out derivative transactions. This include above all interest-rate swaps for risk management of interest-rate risks.

Interest-rate swaps

The group uses interest-rate swaps for securing risks of interests from its bank liabilities rising. For liabilities with a nominal value of € 1,406,000, payment with a fixed interest rate of on average 3.41 % up to 2009 and variable interest income of 1.75 % plus EURIBOR is agreed. For further liabilities with a nominal value of € 2,906,000, payment with a fixed interest of on average 3.63 % up to 2013 and variable interest income of 1.75 % plus EURIBOR is agreed.

The current value of the swaps existing on December 31, 2005 is estimated at € -50,000 (2004: € 0). These amounts are based on the market values of equivalent financial instruments on the balance sheet date. All interest-rate swaps were provided to secure the cash flow and are classified as effective. The relevant current values were therefore included in equity capital. No interest payments due and secured were set off in the period of the report.

32. Other notes as provided for by HGB

Following is additional information which is mandatory within the meaning of HGB provisions.

Members of the Executive Board

Dr. Bernd Kriegel, Berlin *Dr. of Physics*	*Chairman*
Dr. Hans-Georg Giering, Deuben/Berlin *Dr. of Physics*	
Dr. Edmund Rickus, Ehingen *Dr. of Physics*	*to Jan. 10, 2005*

Members of the Supervisory Board

Edgar Most, Berlin *Bank Manager*	*Deputy Chairman* *since March 01, 2005*

Other Supervisory Board mandats:

- Chemieanlagenbau Straßfurt AG, Straßfurt
- Aker MTW Werft GmbH, Wismar
- Aker Warnemünde Operations GmbH, Wismar
- Peene-Werft GmbH, Wolgast
- Kondor Wessels Deutschland GmbH & Co. KG, Berlin
- LEIPA Georg Leinfelder GmbH, Schwedt — *Chairman*
- Sodawerk Straßfurt GmbH & Co. KG, Straßfurt — *Chairman*

Memberships in comparable supervisory bodies:

- Institut für Getreideverarbeitung GmbH, Potsdam — *Deputy Chairman*
- BioCon Valley GmbH, Greifswald
- DRESEARCH Digital Media Systems GmbH, Berlin

Dr. Michael Altwein, Darmstadt — *Deputy Chairman since June 24, 2004*
Master of Physics — *Chairman since March 01, 2005*

Memberships in comparable supervisory bodies:
Hottinger Baldwin Messtechnik GmbH, Darmstadt

Ernst Hofmann, Wiesbaden
Business consultant

Kurt Ochner, Stuttgart — *since 22. Juni 2005*
Graduate in Business Administration.,
Member of Executive Board KST Beteiligungs AG

Weitere Aufsichtsratsmandate:

- Investorsmedia AG, Frankfurt
- SAB Projekt, Stuttgart
- Blättchen & Partner AG, Leonberg

Prof. Dr. Hans Richter, Frankfurt/O.
Director, IHP BTU Joint Lab

Dr. Rudolf Scheid, Swistthal — *Chairman*
Lawyer — *to June 24, 2004*

Former members of the Supervisory Board

Dr. Hanno Marquardt, Bonn — *Chairman*
Lawyer — *from June 24, 2004 to Feb. 28, 2005*

Other Supervisory Board mandats:

- Allerthal-Werke AG, Grasleben — *Chairman*
- Rheiner Moden AG, Rheine — *Chairman*
- Porzellanfabrik Zeh, Scherzer & Co. AG, Rehau — *Chairman*

Gerhard Hagenau, Chieming — *Deputy Chairman*
Graduate in Business Administration — *to June 24, 2004*

Prof. Dr. Ing. Dr. E.h. Herbert Reichl, Baierbrunn — *to June 24, 2004*
University Professor

Holdings liable to notification pursuant to section 41, sub-section 2, sentence 1 WpHG

SSI AG received the following notifications pursuant to section 41, sub-section 2, sentence 1 WpHG in financial year and published these in accordance with section 41, sub-section 3 and section 25, sub-section 1 WpHG:

"Deutsche Bank AG, Frankfurt, Germany, has informed us in accordance with section 21, sub-section 1 WpHG that FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxemburg, holds less than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG fell below the 5% threshold on 27 October 2005 and since this time measure 4.78 %."

"Invision Asset Management AG, Zug, Switzerland, has informed us in accordance with section 21, sub-section 1 WpHG that Hitech Premium N.V., De Ruyterkade 62 Willemstad, Curacao, holds less than 5 % of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG fell below the 5% threshold on 17 October 2005 and now measure 3.43 %."

"Deutsche Bank AG, Frankfurt, Germany, has informed us in accordance with section 21, sub-section 1 WpHG that FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxemburg, has acquired more than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG exceeded the 5% threshold on 13 October 2005 and now measure 7.07%."

"Deutsche Bank AG, Frankfurt, Germany, has informed us in accordance with section 21, sub-section 1 WpHG that FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxemburg, holds less than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG fell below the 5% threshold on 07 October 2005 and since this time measure 4.66 %."

"Deutsche Bank AG, Frankfurt, Germany also notified us in accordance with section 21, sub-section 1 WpHG that DWS Investment GmbH, Mainzer Landstrasse 178-190, 60327 Frankfurt, Germany, has acquired more than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG exceeded the 5% threshold on 7 October 2005 and now total 5.87%."

"KST Beteiligungs AG, Stuttgart, Germany, has informed us in accordance with section 21, sub-section 1 WpHG that KST Beteiligungs AG, Friedrichstrasse 14, 70174 Stuttgart, Germany, has acquired more than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon Sensor International AG exceeded the 5% threshold on 23 June 2005 and now total 5.10%."

"Deutsche Bank AG, Frankfurt, Germany, has informed us in accordance with section 21, sub-section 1 WpHG that FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxemburg, has acquired more than 5% of the capital stock of Silicon Sensor International AG. The shares with voting rights in Silicon

Sensor International AG exceeded the 5% threshold on 2 March 2005 and now total 6.10%."

Employees

Average number of staff during 2005 business year:

	2005 € 1,000	2004 € 1,000
Germany	128	98
Other countries	3	4
	131	**102**

The group employed a total of 222 on 31 December 2005, including 23 trainees.

Waiver of disclosure in accordance with section 264, sub-section 3 HGB (page 49)

The following German subsidiaries with the legal status of joint-stock corporations have fulfilled the conditions for claiming exemption required pursuant to 264, sub-section 3 HGB and therefore waive disclosure of their annual financial statement documents.

- Lewicki microelectronic GmbH — Oberdischingen
- Silicon Sensor GmbH — Berlin

33. Corporate Governance

The company has made a statement of conformity pursuant to § 161 AktG and made it permanently accessible on its website.

Berlin, March, 2006

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel		Dr. Hans-Georg Giering

Auditors Report

We have issued the following opinion on the consolidated financial statements and the group management report:
"We have audited the consolidated financial statements prepared by Silicon Sensor International AG, Berlin, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1st to December 31st, 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, March 28, 2006

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

Plett	*Glöckner*
Wirtschaftsprüfer	*Wirtschaftsprüfer*
[German Public Auditor]	*[German Public Auditor]*

Internal statement

Officers of the company had no share holdings in the company on Dec. 31, 2005.

Declaration of Conformity with the German Code of Corporate Governance (under § 161 AktG)

The Silicon Sensor group embraces the principles of transparent and responsible corporate management and supervision which serve to maintain and enhance confidence among shareholders, staff, business partners and the public.

The Managing Board and the Supervisory Board of Silicon Sensor International AG herewith assert that, since making the last statement pursuant to § 161 AktG, the company has conformed to the recommendations made by Germany's government commission on corporate governance (*Regierungskommission Deutscher Corporate Governance Kodex*) as amended on May 21, 2003, with the exception of the following recommendations which are not (yet) applied:

- Managerial salaries for members of the Managing Board and Supervisory Board are not stated individually in the notes of the consolidated financial statement (subsections 4.2.4 and 5.4.5 of the Code). This is because stating salaries individually does not provide more information pertaining to capital markets than a differentiated collective statement.

- There is currently no performance-related pay (subsection 5.4.5 of the Code) for members of the Supervisory Board. When determining this pay on May 30, 2001, the General Meeting did not introduce any performance-related pay elements.

- There are no age limits for members of the Managing Board and Supervisory Board (subsections 5.1.2 and 5.4.1 of the Code).

- The Supervisory Board has not appointed any committees (subsection 5.3 of the Code) and will invariably meet as a collective body.

- Progress reports are published within the time limit applying under the regulations of the Frankfurt stock exchange and, thus, not necessarily within 45 days from the end of the period under review (subsection 7.1.2 of the Code).

Berlin, March 2006

Silicon Sensor International AG

The Executive Board | The Supervisory Board

Report of the Supervisory Board

2005 was again an eventful year for the Silicon Sensor Group. In particular, it was marked by the acquisition of majority shareholdings in Microelectronic Packaging Dresden GmbH and by the successful implementation of a capital stock increase. Besides that, efforts were focused on building up the business of the individual subsidiaries of the group, intensifying collaboration among the various subsidiaries of the group, and developing business in America. We are especially pleased to report that about 93% of our shareholders participated in the capital stock increase, which was almost three times oversubscribed, and that we received our first major order from the automotive industry.

Over the past fiscal year, the Supervisory Board continuously monitored the trend of business of Silicon Sensor International AG and its subsidiaries, and was convinced, with no reservations, that the operations were properly conducted. In total, seven joint meetings were held to allow the Board of Management and Supervisory Board to discuss in detail basic issues of business policy, future growth strategy and internationalization. Moreover, a great number of discussions were held between the Board of Management and the individual members of the Supervisory Board. The membership of the Supervisory Board changed in that Dr. Marquardt withdrew on Feb. 28, 2005. A new member was appointed: Mr. Kurt Ochner, Board Member of KST AG. In the first Supervisory Board Meeting after the General Shareholders' Meeting of June 22, 2005, Mr. Edgar Most was appointed Chairman of the Board and Dr. Michael Altwein, Deputy Chairman. In 2004, Dr. Giering had been re-appointed Chairman of the Board by the Supervisory Board for another five years, and in this year the Chairman of the Board of Management, Dr. Kriegel, was also re-appointed for another five years, from 2006 to 2010. The Consolidated Financial Statements and Management Report and the Annual Financial Report for the period ending December 31, 2005 and Management Report met with the unqualified approval of the auditors Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Berlin. The Annual and Consolidated Financial Statement Documents and Management Reports were submitted to the Supervisory Board and were examined and discussed in detail at the Supervisory Board's balance sheet meeting held on March 28, 2006 in the presence of the auditors of the financial statements. We approved the annual financial statements presented to us, which are therefore certified. We examined the consolidated annual financial statements and approved them without reservation.

The Supervisory Board would like to thank, in particular, the Board of Management and all the employees for their commitment and exceptional performance. We wish them great success in rising to the challenges of 2006. Special thanks to our old and new shareholders who have placed their confidence in our company, and continue to do so.

Berlin, in March 2006

Silicon Sensor International AG
The Supervisory Board

Edgar Most
Chairman