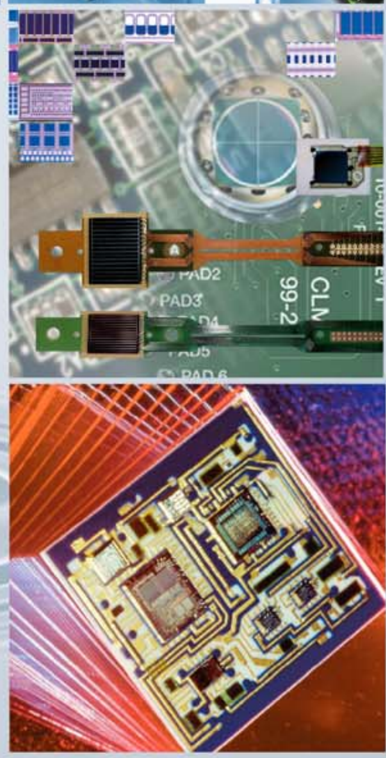
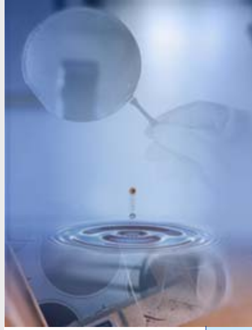


BUSINESS REPORT
for the year 2006

SILICON SENSOR INTERNATIONAL AG



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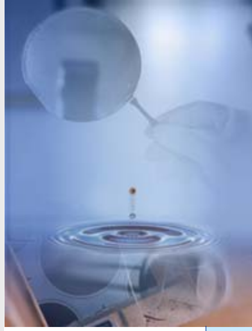

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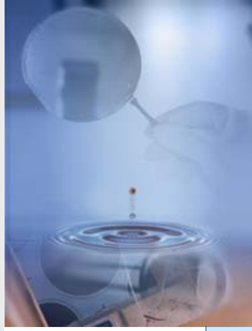


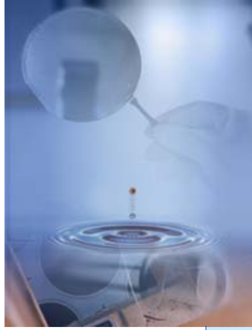
Business Report 2006
for the Silicon Sensor Group

Financial ratios January 01, 2006 – December 31, 2006 (Business report 2006)

	Jan. 01, 2006 - Dec. 31, 2006 € 1,000	*Jan. 01, 2005 - Dec. 31, 2005 € 1,000*	*Change in € 1,000*	*Change %*
Sales revenue	**32,640**	15,969	16,671	104
Back orders	**20,516**	10,204	10,312	101
EBITDA	**7,802**	3,208	4,594	143
EBIT	**5,484**	1,996	3,488	175
Twelve-month surplus	**3,007**	1.339	1,668	125
Twelve-month surplus €/ individual share certificate	**0.87**	0.52	0.35	67
Share	**3,468,065**	2,554,000	914,065	36
R&D expenditure	**3,528**	965	2,563	266
Staff (Dec. 31)	**240**	222	18	8

Financial ratios October 01, 2006 – December 31, 2006 (IV. quarter 2006)

	Oct. 01, 2006 - Dec. 31, 2006 € 1,000	*Oct. 01, 2005 - Dec. 31, 2005 € 1,000*	*Change in € 1,000*	*Change %*
Sales revenue	**8,289**	6,573	1,716	26
Back orders	**20,516**	10,204	10,312	101
EBITDA	**2,085**	1,310	775	59
EBIT	**1,482**	775	707	91
Three-month surplus	**654**	494	160	32
Three-month surplus €/ individual share certificate	**0.19**	0.14	0.05	36
Share	**3,522,900**	3,457,900	65,000	2
R&D expenditure	**597**	601	- 4	- 1
Staff (Dec. 31)	**240**	222	18	8



Foreword

by the Management Board

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

To all shareholders and business associates,

After the takeover of MPD Microelectronic Packaging Dresden GmbH in September 2005, the first business year together was a full success. The takeover gave the Silicon Sensor group a new dimension, with 2006 sales rising more than 100 %, from € 15.97 mn to € 32.64 mn. It is gratifying to note that growth was due not only to the acquisition of MPD but organic for the most part. The group in 2006 benefited from favorable macroeconomic conditions.

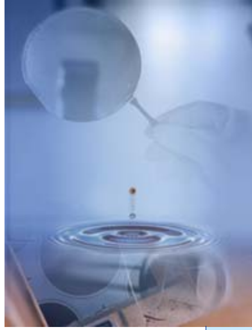
Profits grew even faster, and the operative result (EBIT) in 2006 rose 175 %, from some € 2.0 mn to about € 5.5 mn, giving Silicon Sensor an EBIT margin of approx. 17 %. Profits after tax increased by 125 % to € 3.0 mn.

Following a capital increase and rise in the number of shares in 2005, earnings per share in the period under review were € 0.87, an improvement of € 0.35 on the previous year (12/31/2005: € 0,52). The welcome trend is continuing into the current quarter.

A particularly positive feature is the order backlog which grew by 101 %, to € 20.5 mn, for the group as a whole (12/31/2006) compared with the previous year (12/31/2005: € 10.2 mn). Staff levels increased from 222 on 12/31/2005 to now 240 full-time employees.

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.



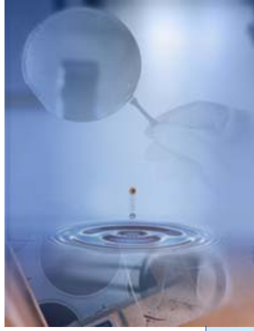
Not least, the commitment of our shareholders has gone a long way toward making 2006 a good business year in which key decisions were made to ensure a prosperous future for the Silicon Sensor group.

Berlin, March 2007

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel

Dr. Hans-Georg Giering



Business development

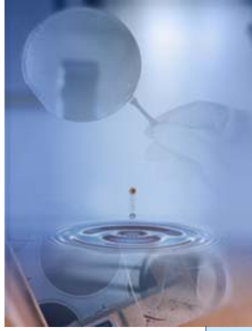
The Silicon Sensor group specializes in the production of optoelectronic sensors (photo detectors) for identifying and measuring alpha, beta, gamma and X-rays, ultraviolet and visible light and near-IR radiation. The company in addition makes non-optical sensors. It also develops and manufactures extremely 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.

Silicon Sensor components are basic to a wide variety of final products from many industries, making the company largely independent of the business cycles of individual sectors. The market for these high-end products is promising and has growth potential also in future.

Silicon Sensor is among a small circle of companies worldwide developing and making optical high-end sensors for exacting requirements. Cases 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 acquisition in 2005 of Microelectronic Packaging Dresden GmbH (MPD) did not basically change the operations of the Silicon Sensor group. Instead the deal has lengthened the value chain and made the group less dependent on outside service providers. With over 35 years of experience in construction and connection practice making semiconductor devices and sensors, MPD has proven that, as a contract manufacturer of electronic components and modules using customized connections, it can produce several million components per year. As a result, the Silicon Sensor can now open up completely new market segments in mass production. At the same time, MPD's experience and know-how regarding supplies to the automotive industry is boosting existing business segments.

The group made a planned addition to its value chain by establishing Silicon Micro Sensors GmbH at the end of the past business year. The move will also strengthen MPD's role as a service provider in construction and connection techniques. Silicon Micro Sensors, headquartered at Dresden and co-founded by Silicon Sensor International AG and Wilhelm Prinz von Hessen develops, produces and markets sensor-based products. The new subsidiary in which Silicon Sensor has an 85 % holding will, for the time being, concentrate on pressure sensors for the automotive industry and camera systems for security and automotive applications.



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, the development of Pacific Silicon Sensor Inc. has been continued according to plan. In 2006, our American subsidiary increased its sales by 42 %, up from $ 1.2 nm (Dec. 31, 2005) to $ 1.7 nm (Dec. 31, 2006), 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 2007.

Personnel

Group success derives from the extensive know-how of a workforce with over 30 years of experience. Apart from staff motivation, fresh skilled recruits will be a decisive factor when it comes to ensuring future economic success.

At the end of 2006 the Silicon Sensor group had 240 full-time employees. On Dec. 31, 2005 Silicon Sensor had a total workforce of 222.

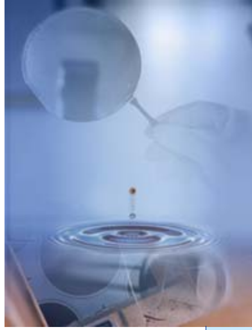
Prospects

The Silicon Sensor group has established itself as a leading specialist supplier of high-quality optical and non-optical sensors, and hybrid/installation/ connection technology to client specifications.

During the 2007 business year, the sales and operative earnings of subsidiaries are expected to rise. The Executive Board assumes that most of the percent increase will come from Pacific Silicon Sensor Inc.. Other subsidiaries, too, will make profits, and the planning for 2007 is a better operative result for the group compared with 2006.

As reported earlier, the accent during business year 2007 will be on laying the basis for future growth. The foundation stone for extending the manufacturing site at Dresden was laid as early as Sept. 23, 2006, and the new production areas were scheduled for completion at the beginning of the 2nd quarter. Complicated talks with the state of Berlin about areas for building a new sensor factory ended successfully in 2006 with the purchase of a suitable property at Berlin-Oberschöneweide. It is assumed that the new factory building will be completed during the current business year. Production at the new plant could then start in the 1st quarter of 2008.

During past business years the customer base was broadened, making the Silicon Sensor group less dependent on a few main customers. At the same time, opening up U.S. markets can in the medium term help to compensate



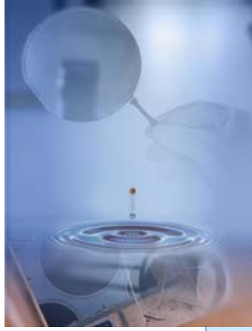
fluctuations in demand and the dependence on big customers in Europe. It is the purpose of the new business segments which have been embarked on to minimize risks from general economic development.

Now as before, sensors will be responsible for most of the growth in a company whose development capabilities are a vital factor in making products of a generally accepted high quality and providing sophisticated problem solutions.

Berlin, March 2007

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 2006

- ***Sales increase 104 % from € 15.97 million to € 32.64 million***
- ***EBIT rises 175 % to € 5.5 million***
- ***Results rocket from € 1.34 mn to € 3.01 mn***
- ***Order backlog rises 101 % from € 10.2 mn to € 20.5 mn***
- ***Basis has been created for further growth***

Accounting procedures

Silicon Sensor International AG (hereafter referred to as „SIS“) has prepared the group's financial statement in keeping with IFRS (International Financial Reporting Standards).

General economic environment

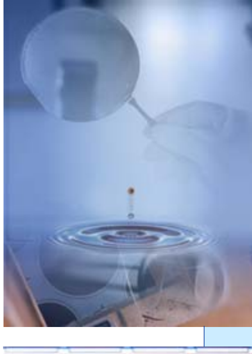
Whereas general market trends are characterized by sluggish economic growth, VDI (the association of German engineers) has singled out commercial uses of light as a future market. Optical technology already provides about 15 % of all manufacturing jobs, and estimates made by IPM (Fraunhofer Institut 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.

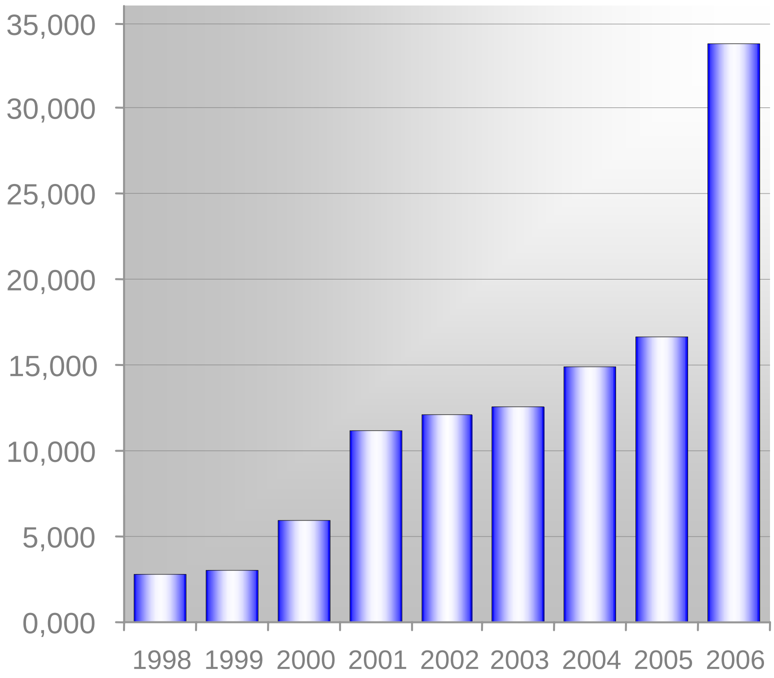
Sales

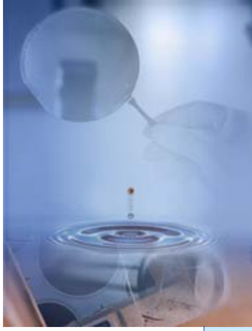
Major sales growth

Group turnover rose by 104 %, from € 15.97 mn (2005) to € 32.64 mn (2006). Part of Silicon Sensor's dynamic growth during the 2006 business year was due to favorable macroeconomic conditions. Sales also benefited from the successful integration of MPD into the group, but this was not the only contributing factor as a great deal of the increase was due to organic growth. Lewicki microelectronic GmbH reported good results and topped the high profit levels of the year before, while Silicon Sensor GmbH considerably increased sales and profits for the best annual result since its foundation in 1991. In addition, the company bought the site for a new sensor factory and thus laid the basis for positive expansion in the years to come. It is also very gratifying to see the rapid rise in sales of the U.S. subsidiary.



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





Earnings

Consolidated profit and loss statement

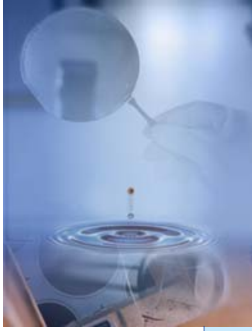
	2006	Total Output	2005	Total Output
	€ 1,000	%	*€ 1,000*	%
Sales	32,640	93 %	15,969	95 %
Total output	**34,642**	100 %	**16,876**	100 %
Cost of materials	- 11,150	32 %	- 5,245	31 %
Gross margin	**23,492**	68 %	**11,631**	69 %
Personnel expenses	- 10,935	32 %	- 5,879	35 %
Depreciation & amortization (fixed assets, goodwill)	- 2,318	7 %	- 1,212	7 %
Other expenses	- 4,755	14 %	- 2,544	15 %
Operating income	**5,484**	16 %	**1,996**	12 %
Financial and investment income/ expenses	- 481	- 1 %	- 233	- 2 %
Consolidated income before tax	**5,003**	15 %	**1,763**	10 %
Income taxes	- 1,993	6 %	- 340	2 %
Loss attributable to minority interests	- 3	0 %	- 84	0 %
Consolidated net income	**3,007**	9 %	**1,339**	8 %

Group results in 2006 reached completely new levels, not least because of the consolidation of MPD GmbH.
The share of personnel expenditure and the percentage rate of depreciation in gross operating performance were slightly lower than the prior-year level. An even greater increase was prevented by higher materials consumption resulting from MPD's specific manufacturing structure.

Even though the number of shares had risen from 2,554,000 to 3,468,065, earnings per share (€ 0.87) were about 70 % higher than for the previous year (€ 0.52) and thus exceeded expectations. The rapid rise in results has fortunately prevented a dilutive effect from the new shares issued by Silicon Sensor International AG at the end of 2005.

Investments

Total group capital investment in 2006 amounted to approx. € 6.0 million, resulting in an investment quota of about 20 %.
Investment went mostly into expanding the manufacturing base and quality assurance, with the aim of achieving growth targets while making allowance for risk management. These outlays will insure the innovative capacity of the Silicon Sensor group in future.



Acquisitions

Effective on Oct. 1, 2005, Silicon Sensor took over the majority of the shares of MPD Microelectronic Packaging Dresden GmbH, a profitable company. This gave the group a completely new dimension, and efforts thereafter focused on integrating the new subsidiary. No new acquisitions were therefore discussed in 2006, even though improved profitability has led the group to look for businesses that would be compatible from a synergistic point of view and help reinforce positions in the sensor market. New projects are encouraged by the successful integration of Lewicki microelectronic GmbH and the incorporation of Microelectronic Packaging Dresden GmbH which has just begun, as well as a related strengthening of market positions expected in the current business year.

State of the Silicon Sensor International AG

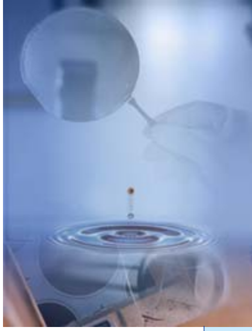
The development of Silicon Sensor International AG in the past business year was very encouraging. Results of normal business operations rose by 347 %, from € 743,000 to € 3.32 mn. This was due to a rapid rise in the earnings of subsidiaries in 2006 and a reduction of other operating expenses and depreciation from € 1,572,000 (12/31/2005) to € 1,257,000 (12/31/2006). In keeping with the excellent annual result, tax expenditure rose from € 271,000 to € 1.3 mn. Of the year's profit of € 2.06 mn, € 1.0 mn was in advance allocated to other earned surplus with a view to future growth. During the 2006 business year, the entity capital of Silicon Sensor International AG grew from € 25.78 mn to € 28.2 mn, raising the company's equity ratio from 77 % to almost 80 %. At the same time, liabilities to banks were reduced from € 6,0 mn to € 4.88 mn.

The Executive and Supervisory Boards will ask the General Meeting to appropriate the balance sheet profits of € 1,054,512.92 for the 2006 business year as follows:

a) distribution to shareholders by paying a dividend of € 0.10 per individual share certificate: € 352,290.00

b) allocation to other earned surplus: € 702,222.92

Management is expecting solid development of Silicon Sensor International AG in fiscal 2007. 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

The price of the Silicon Sensor share increased by 35 % during the 2006 business year. Market capitalization is now near the € 50 mn mark, attracting interest from institutional investors who, as a matter of policy, often may not invest in less capitalized stocks.

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 65,000 new shares during the 2006 business year, creating an inflow of liquid funds worth € 195,000.

There were no changes in 2006 as regards notifiable holdings. As per Dec. 31, 2006, investors with a share holding of more than 5 % in Silicon Sensor International AG included DWS Investment GmbH (5.87 % - notification dtd. Oct. 7, 2005) and KST Beteiligungs AG (5.1 % - notification dtd. June 23, 2005).

The company was notified on March 5, 2007 that Lupus alpha Investment S.A., 69 route d'Esch, L – 1470 Luxembourg, Luxembourg overstepped the threshold of 3 % of voting rights on Feb. 23, 2007 and now holds 112,500 individual share certificates (3.19 %) of the company.

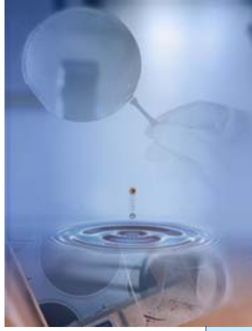
For information regarding § 315 (4) HGB, please see the notes. In addition, the following legal provisions apply with regard to § 315 (4) no. 6 HGB:

The Supervisory Board may appoint Executive Board members for a max. of five years. An appointment may be repeated, or a term extended for a max. of five years in each case, subject to a new Board decision to be made no earlier than one year before the end of the previous term of office. In the case of an appointment for less than five years, the term of office may be extended without a new Board decision if the complete term lasts no longer than five years. The Supervisory Board may cancel appointments of Executive Board members for serious reasons.
Amendments of the statutes may only be made through a resolution adopted by the General Meeting.

The freefloat is currently about 86 %.

Share indices (Xetra)

	12/31/2006	12/31/2005	12/31/2004
Share price	13.75	10.19	11.89
Number of shares	3,522,900	3,457,900	2,317,500
Earnings per share	0.87	0.52	0.60
KGV	16	20	20
KUV	1.4	2.21	1.99
Free float	3,140,531	3,077,531	2,261,000



Group Financing

Consolidated cash flow statement

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

€ 1,000	2006	2005	Change
Operative cash flow	4,818	2,129	2,689
Cash flow from investment activities	-5,494	-17,167	11,673
Cash flow from financing activities	920	16,001	-15,081
Foreign currency translations	-16	9	-25
Change in liquid funds	228	972	-744
Liquid funds at the beginning of the year	4,752	3,780	
Liquid funds at the end of the year	**4,980**	**4,752**	

The operational cash flow was once again positive in the 2006 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.

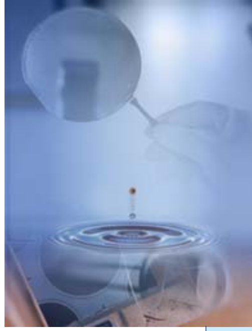
Low liquid funds - liquidity assured

Compared with the end of the previous year, funds increased by € 228,000. 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 2006

The authorized capital recognized in the balance sheet as subscribed capital at Dec. 31, 2006 increased by € 165,000 from € 10,374,000 (Dec. 31, 2005) to € 10,569,000, composed of 3,522,900 shares with a par value of € 3 each.

The balance sheet total at the balance sheet date increased by € 5,100,000 to € 45,450,000. Equity capital at the balance sheet date increased by € 381,000 to € 23,870,000. That corresponds to an equity ratio of approximately 53 % (prior year: 55 %). At the balance sheet date, the Silicon Sensor Group had cash and cash equivalents in the amount of € 5,100,000 (prior year: € 5,300,000).



Employees

On Dec. 31, 2006 Silicon Sensor had a total workforce of 240 worldwide, compared with 222 on Dec. 31, 2005. Of these, 234 were employed in Germany and 6 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 2006. 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.

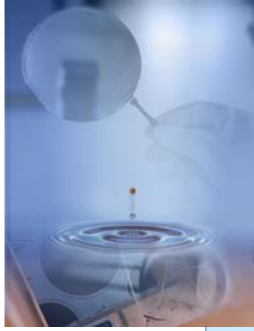
Pacific Silicon Sensor Inc. has come up with user-friendly system modules for APDs, and position and wavelength-sensitive photodiodes. Its activity in California is built around customized product development.

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 2006 was € 3,500,000. This means that related costs rose 271 % on the previous year (2005: € 1,000,000).
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 2006. 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 2006 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.

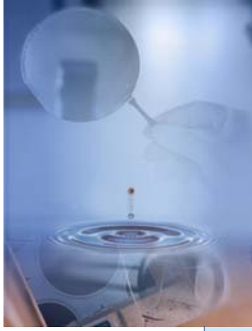
Risks regarding the future development of the group

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.

The current tax audit has so far shown no major impact.

Proposed expansion of the group calls for constant liquidity, and there are cash reserves to deal with unforeseen developments. Existing credit lines for € 2.85 million which are presently not utilized by the company's will go a long way toward securing budgeted liquidity in the 2007 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.



The favorable trends driving international stock markets during the 2006 business year have also affected the price of the Silicon Sensor share.
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 2006. Silicon Sensor's growing sales are primarily due to the customized solutions the company offers. Apart from new products, a wider presence on the U.S. market promises potential growth.

For the 2007 business year the Executive Board expects better sales in the fast growing market for avalanche photodiodes.

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

Order book position

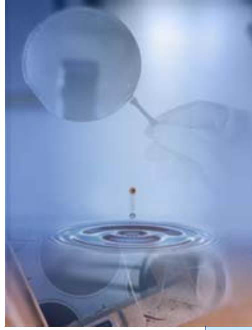
There was a welcome increase of 101 %, to € 20.5 mn, in orders on hand as per Dec. 31, 2006 compared with the previous year.
Our customers are showing a general tendency to place orders at shorter notice, especially in the area of hybrid manufacturing and advanced packaging.

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 2007 can be expected to surpass those of 2006.

Expectation for the Group

In view of future trends charted for the company, and results obtained in the 1st quarter of 2007, turnover and operative results for 2007 as a whole are again expected to rise compared with 2006.

Developments after the accounting date

The company was notified on March 5, 2007 that Lupus alpha Investment S.A., 69 route d'Esch, L – 1470 Luxembourg, Luxembourg overstepped the threshold of 3 % of voting rights on Feb. 23, 2007 and now holds 112,500 individual share certificates (3.19 %) of the company.

Berlin, March 2007

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel　　　　　　Dr. Hans-Georg Giering

Consolidated Balance sheet

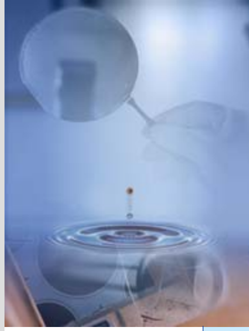
as of December 31, 2006 and 2005 (IFRS)

ASSETS	*Note*	***Dec. 31, 2006*** *€ 1,000*	***Dec. 31, 2005*** *€ 1,000*
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*3*	4,980	4,752
Short-term investments	*4*	124	547
Trade receivables	*5*	4,632	2,999
Accounts receivable from associated companies		0	124
Inventories	*6*	5,570	4,372
Other current assets	*7*	939	756
Total current assets		**16,245**	**13,550**
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	11,786	9,025
Intangible assets	*9*	6,120	6,206
Goodwill	*9*	11,142	11,142
Equity holdings in associated companies	*10*	99	416
Deferred tax assets	*25*	20	17
Other non-current assets		42	24
Total non-current assets		**29,209**	**26,830**
Total assets		**45,454**	**40,380**

Consolidated Balance sheet

as of December 31, 2006 and 2005 (IFRS)

LIABILITIES AND EQUITY	*Note*	**Dec. 31, 2006** *€ 1,000*	**Dec. 31, 2005** *€ 1,000*
LIABILITIES			
CURRENT LIABILITIES			
Short-term loans	*13*	2,651	2,165
Trade payables		1,356	817
Accounts payable to associated companies		2	20
Advance payments received		237	132
Provisions	*11*	1,709	284
Liabilities from income tax		1,478	865
Other accounts payable	*12*	2,876	1,573
Total current liabilities		**10,309**	**5,856**
NON-CURRENT LIABILITIES			
Long-term debt	*14*	7,158	6,924
Provisions	*11*	92	60
Deferred tax liabilities	*25*	2,549	2,576
Deferred income	*16*	1,474	1,473
Total non-current liabilities		**11,273**	**11,033**
EQUITY			
Share capital	*17*	10,569	10,374
Reserves	*18*	9,497	10,899
Translation reserve		-214	-140
Retained earnings/loss		3,984	977
Equity falling on SIS AG shareholders		**23,836**	**22,110**
Minority Interests		36	1.381
Total Equity		**23,872**	**23,491**
Total liabilities and equity		**45,454**	**40,380**



Consolidated Income Statement

for the fiscal year 2006 and 2005 (IFRS)

	4 th quarter Oct. 01, 2006 - Dec. 31, 2006 € 1,000	4 th quarter Oct. 01, 2005- Dec. 31, 2005 € 1,000	Note	Twelve - months report Dec. 31, 2006 € 1,000	Twelve- months report Dec. 31, 2005 € 1,000
	*	*			
Ordinary activities					
Sales	8.289	6,573	19	32,640	15,969
Other operating income	754	473	20	1,768	741
Increase / decrease in finished goods and work-in-process	23	22	21	187	-27
Own work capitalised	22	79		47	193
Cost of raw materials, supplies and purchased services	-2.468	-2,633	22	-11,150	-5,245
Personnel expenses	-2.910	-2,228	23	-10,935	-5,879
Depreciation and amortisation costs on intangible assets, and plant and equipment	-603	- 535	8, 9	-2,318	-1,212
Other operating expenses	-1.625	-976	24	-4,755	-2,544
Results of ordinary activities	**1,482**	**775**		**5,484**	**1,996**
Interest income	35	48		100	64
Expenses	-134	-273		-482	-328
Income from securities in current assets	-4	22		40	22
Verluste aus Wertpapieren des Umlaufvermögens	-56	0		-85	0
Exchange gains	24	8		29	17
Exchange losses	-29	-2		-83	-8
Results before tax and minority interest	**1,318**	**578**		**5,003**	**1,763**
Income tax	-661	-10	25	-1,993	-340
Results for the period	**657**	**568**		**3,010**	**1,423**
Minority interest	3	74		3	84
Net earnings attributable to shareholders of SIS AG	**654**	**494**		**3,007**	**1,339**
Basic earnings per share:	**0,19**	**0.14**	26	**0.87**	**0.52**
Number of shares used for the calculation of basic earnings per share (in thousend)	3.468	3,458		3,468	2,554
Diluted earnings per share:	**0,19**	**0.14**	26	**0.86**	**0.51**
Number of shares used for the calculation of diluted earnings per share (in thousend)	3,494	3,458		3,494	2,601

* 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 Statement

for the fiscal year 2006 and 2005 (IFRS)

	Jan. 01 - Dec. 31, 2006 € 1,000	Jan. 01 - Dec. 31, 2005 € 1,000
Operating income/loss	5,484	1,996
Adjustments to reconcile the consolidated profit/ loss with cash flows from operating activities		
Depreciation of intangible assets and property, plant and equipment	2,318	1,212
Income from contributions	-302	-120
Loss on the disposal of assets	3	4
Changes in provisions	168	-879
Changes in assets not allocable to investing- or financing activities	-3,033	1,130
Changes in liabilities not allocable to investing or financing activities	2,091	-612
Income tax paid	-490	-305
Interest payments	-1,421	-297
Cash flow from operating activities	**4,818**	**2,129**
Investments in intangible assets and property, plant and equipment	-3,722	-957
Payments for the acquisition of shares in associated companies	0	-278
Payments for buying stocks and shares	-164	-547
Payments for the acquisition of subsidiaries after deducting the liquid assets acquired	0	-15,575
Payments for acquiring minority interests	-2,637	0
Deposits from sales of securities	502	0
Proceeds from the disposal of intangible assets, property, plant and equipment	3	24
Proceeds from government grants	384	80
Interest income	140	86
Cash flow from investing activities	**-5,494**	**-17,167**
Proceeds from issuance of share capital	247	11,124
Proceeds of loans	-47	-311
Deposits from financial borrowing	-2,200	-8,812
Payments from buying out the silent partner	2,920	14,000
Cash flow from financing activities	**920**	**16,001**
Net effect of currency translation on cash and cash equivalents	**-16**	**9**
Net increase in cash and cash equivalents	**228**	**972**
Cash and cash equivalents at beginning of year	4,752	3,780
Cash and cash equivalents at end of year*	**4,980**	4,752

* For composition and trend of financial resources we refer you to note 3.

Consolidated Statement of changes in equity

for the years ended December 31, 2006 and 2005 (IFRS)

	Equity falling on SIS AG shareholders						
	Number of Shares '000	*Share Capital € 1,000*	*Reserves € 1,000*	*Retained earnings € 1,000*	*Translation reserve € 1,000*	*Minority Interests € 1,000*	*Total € 1,000*
Balance at January 01, 2005	**2,318**	**6,953**	**3,391**	**-362**	**-204**	**3**	**9,781**
Net profits from cash flow hedges			-50				-50
Transaction costs			-190				-190
Translation of foreign currencies					64		64
Total of results registered directly in equity capital (explanation 18)			-240		64		-176
Profit				1,339		84	1,423
Results for the periode			-240	1,339	64	84	1,247
Exercise of share options (explanation 15 and 17)	28	84	27				111
Minority interest additions						1,294	1,294
Share-based remuneration (explanation18)			45				45
Acquisition of minority holdings Issue of registered capital (explanation 17)	1,112	3,337	7,676				11,013
Balance at December 31, 2005	**3,458**	**10,374**	**10,899**	**977**	**-140**	**1,381**	**23,491**
Balance at January 01, 2006	**3,458**	**10,374**	**10,899**	**977**	**-140**	**1,381**	**23,491**
Transaction costs			-29				-29
Translation of foreign currencies					-74		-74
Net losses from securities available for sale			-26				-26
Net profits from cash flow hedges			99				99
Total of results registered directly in equity capital (explanation18)			44		-74		-30
Profit				3,007		3	3,010
Results for the periode			44	3,007	-74	3	2,980
Acquisition of minority holdings			-1,579			-1,348	-2,927
Exercise of share options (explanation15 and 17)	65	195	52				247
Share-based remuneration (explanation 18)			81				81
Balance at December 31, 2006	**3,523**	**10,569**	**9,497**	**3,984**	**-214**	**36**	**23,872**

Notes to consolidated accounts

as per Dec. 31, 2006 (IFRS)

1. General

Silicon Sensor International AG, Berlin (hereafter referred to as "SIS", "the company" or the "Silicon Sensor group") and its subsidiaries are active in sensor manufacture and micro system technology. Company operations focus on the development, production and marketing of customized optical semiconductor sensor systems. The company also makes non-optical sensors. In addition, the Silicon Sensor group develops and manufactures highly reliable customized hybrid ICs and micro system and advanced packaging products.

Several subsidiaries of the SIS group participate in the market as independent business units. The group's parent company, Silicon Sensor GmbH (hereafter ‚SIS GmbH'), was founded in 1991 and has since then become the principal business unit for developing, manufacturing and marketing sensor chips, components and systems. Microelectronic Packaging Dresden GmbH (hereafter ‚MPD') is a leading contract manufacturer of customized electronic sensor systems and modules.
Pacific Silicon Sensor Inc. (hereafter ‚PSS') not only develops customized designs and packages for optical sensors but as a major activity distributes all types of sensor chips and systems in the North American and Asian markets.

With affiliates utilizing synergistic effects on a larger scale, the average workforce was rose from 131 to 235 during the 2006 financial year. The SIS group is headquartered at Charlottenstraße 57 in Berlin/Germany.

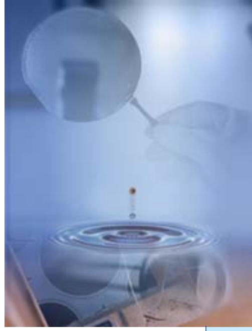
2. Representation of accounting and valuation methods

Basic principles for the preparation of the accounts

The consolidated accounts have been prepared basically by applying the historical cost principle. Excluded are financial derivatives and securities available for sale, which were assessed at their current value. The consolidated financial statement was drawn up in €. Unless stated otherwise, all amounts are given in € 1,000.

Declaration of conformity with IFRS

Consolidated financial statements of the Silicon group conform to the International Financial Reporting Standards (IFRS) as required within the EU, and to the provisions of § 315a HGB.



Changes in presentation and valuation methods

Changes in accounting and valuation methods have resulted from the use of these new or revised standards:

International Accounting Standard (IAS) 21 "Effects of changes in exchange rates“: Since Jan. 1, 2006 the Silicon group has used revised IAS 21 so that conversion differences resulting from monetary items of whatever currency that are part of a net investment made by the reporting company into a foreign business operation are shown under a separate equity item. Any subsidiary of the Silicon group may have such items on its books in the form of outstanding receivables or amounts due to a foreign business operation. Using revised IAS 21 did not affect the consolidated financial statement as per Dec. 31, 2006.

International Financial Reporting Interpretations Committee (IFRIC) 4 "Determination whether an agreement contains a lease“ contains criteria for identifying leasing elements in contracts not formally described as leases. Under IAS 17, contractual elements conforming to the criteria of IFRIC 4 should be shown in the balance sheet as leasing agreements. Use of this interpretation did not affect the consolidated financial statement as per Dec. 31, 2006.

The Silicon group has not yet applied the following standards and IFRIC interpretations which were issued but have not yet come into force. SIS AG on principle intends to apply all standards on the date when they become mandatory for the first time.

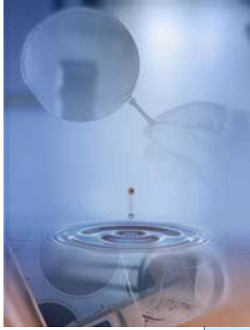
IFRS and IFRIC interpretations adopted by the EU as part of the comitology procedure which have not yet come into force and concern circumstances relevant to the consolidated financial statement of the Silicon group:

Changes in IAS 1 "Presentation of financial statement“: This modification generates data which makes it possible for the final addressee to assess aims, methods and processes of capital management. No allowance has been made in the consolidated financial statement for the duty to provide extra information resulting from changes in IAS 1 "Presentation of financial statement“. The changes apply to business years which start on or after Jan. 1, 2007.

IFRIC 8 "Scope of IFRS 2“: Changes should first be applied to business years starting on or after May 1, 2006. IFRIC 8 regulations will probably not affect the consolidated financial statement.

IFRS and IFRIC interpretations which have not yet come into force and have not been adopted by the EU as part of the comitology procedure and concern circumstances relevant to the consolidated financial statement of the Silicon group:

IFRS 8 „Operative segments“ replaces IAS 14 „Segment reporting“ and adjusts IASB standards to the provisions of the Statement of Financial Accounting Standards (SFAS) 131. It requires financial and descriptive information on "segments subject to reporting requirements“. These are



operative segments or summaries thereof which meet certain criteria. Operative segments are components of a company from which financial information is available that is regularly reviewed by the chief executive of the operative division so that decisions can be made on resource distribution and result appraisal. Financial information should generally be reported on the basis of the internal control concept used to assess operative segments (management approach). The standard applies to business years starting on or after Jan. 1, 2009 and may be used earlier. When drawing up the consolidated financial statement, the group had not yet fully analyzed the effects of this change.

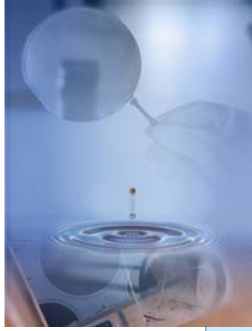
IFRIC 10 “Interim reporting and depreciation“: The interpretation deals with the presumed discrepancy between provisions in IAS 34 "Interim reporting" and other standards as regards showing and reallocating depreciation expenditure in the section on business value, goodwill and certain financial assets in annual financial statements. Under IFRIC 10, a company may not reallocate depreciation expenditure shown in an earlier interim period for business value or goodwill with regard to an equity instrument or financial asset held at initial cost, and may not by analogy extend such a decision to other areas with possible discrepancies between IAS 34 and other standards. IFRIC 10 comes into force for business years beginning on or after Nov. 1, 2006, earlier use being recommended, and probably does not affect the consolidated financial statement.

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.

Depreciation of goodwill and long-term assets

The Silicon Sensor group annually tests goodwill and the value of other long-term assets pursuant to IAS 36, based on the future currency surplus earned for individual assets or groups of assets combined into currency-generating units. Essential long-term assets which are value-tested annually include goodwill shown for the Silicon group, and intangibles acquired through mergers.



Share-based payments

The Silicon Sensor group provides share-based payments for staff and officers. The assessment of related labor costs includes estimates of how conditions tied to these options are met, and market parameters.

Estimated useful lives of acquired intangibles

In the course of acquisitions, the Silicon Sensor has acquired intangibles with limited useful lives. Definition of the related service life is based on the estimated future applicability of an intangible asset.

Consolidation policy

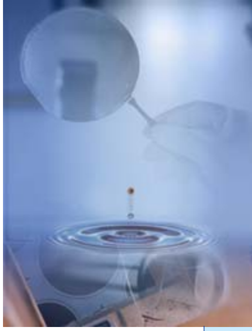
Subsidiary companies

The Group's consolidated accounts incorporate SIS and the companies it controls. Domination is possible if the group, directly or indirectly, holds over 50 % of the voting rights of the subscribed capital of a company and/or can control its financial and business policies so that it may benefit from its operations. Minority interests are those parts of the periodic results and net assets of Silicon Instruments GmbH („SII"), Silicon Micro Sensors GmbH („SMS") and, in the previous year, Microelectronic Packaging Dresden GmbH („MPD") and Silicon Projects GmbH („SIP"), wich are allocable to shares not held by the group. Minority interests are shown separately in the profit and loss statement and as part of equity in the consolidated statement. They appear in the consolidated statement under equity, separate from equity falling on parent company shareholders. Minority interests bought are shown in terms of what is known as the equity concept method where the difference between the purchase price and the book value of proportionally acquired net assets is shown in the reserves in a way not affecting the operating results.

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	100 %



Pacific Silicon Sensor, Inc	Westlake Village, USA	Development/ manufacture/ distribution of sensor systems, distribution of sensor chips	100 %
Silicon Micro Sensors GmbH	Dresden	Development, production and marketing of microelectronic/ mechanical sensor systems, components, modules and microsystems	85 %
Silicon Projects GmbH	Berlin	Development/ manufacture/ distribution of soft/ hardware, Internet services	100 %
Silicon Instruments GmbH	Berlin	Development/ manufacture/ distribution of radiation sensor modules/ equipment	70 %

Company acquisitions in 2006

Business year 2006 brought the following changes for fully consolidated companies:

Foundation of Silicon Micro Sensors GmbH

At the end of 2006, SIS together with Wilhelm Prinz von Hessen founded Silicon Micro Sensors GmbH (SMS) with headquarters at Dresden. The new subsidiary, in which SIS has an 85 % holding, started operating on Jan. 1, 2007 and has since developed, produced and marketed sensor-based products. It will, for the time being, concentrate on pressure sensors for the automotive industry and camera systems for security and automotive applications. Most of the sensors it uses will come from Microelectronic Packaging Dresden GmbH (MPD), a subsidiary of Silicon Sensor International AG.

Acquisition of minority interests in SIP

On March 13, 2006 the group bought another 20 % of the voting shares of SIP, raising its interest to 100 %. Initial costs paid amounted to € 5,000. The book value of shares bought in addition (shown as minority interests in the consolidated financial statement) was € 4,000. The difference between the initial costs and the book value of shares acquired was shown in the capital reserves acc. to the equity concept method.

Acquisition of minority interests in MPD

Effective on Feb. 23, Sept. 11 and Dec. 27, 2006 the group bought 15.97 % of the voting shares of MPD, raising its interest to 100 %. Initial costs paid amounted to € 2,942,000, the book value of shares bought in addition was € 1,364,000. The difference between the initial costs and the book value of shares acquired was shown in the capital reserves acc. to the equity concept method.

Company acquisitions in 2005

With the consent of the Supervisory Board dtd. Sept. 12, 2005, SIS under an acquisition agreement dtd. Sept. 16, 2005 bought 84.03 % of the shares of Microelectronic Packaging Dresden GmbH (hereafter ‚MPD') for a price of € 16,000,000.

The purchase of MPD was shown in the balance using the acquisition method. The purchase price apportionment carried out on Dec. 31, 2005 was based on a provisional identification of intangibles and a preliminary disclosure of hidden reserves/burdens. Purchase price allocation was finalized on Oct. 1, 2006 and brought no adjustment of the purchase price distribution shown in the consolidated financial statement for Dec. 31, 2005. Final purchase price allocation resulted in a split which differed from that of the previous year, and an adjustment of the depreciation procedure.

Associated companies

Companies with interest shares between 20 % and 50 % of equity on which SIS exerts major influence are classified as associated companies and appear in the balance sheet acc. to the equity method, meaning that their proportionate profits and losses are attributed to/written down from the interest shown in the balance sheet. The company determines the value of its holdings in associated companies if there are signs that the asset has undergone depreciation or there is no longer a loss of value shown as affecting the current result in previous years.
In the 2005 business year, Heimann Sensor GmbH, Dresden and MPD Mitarbeiter GbR, Dresden were shown as associated companies in the consolidated financial statement.

The acquisition in 2006 of minority interests in MPD led to the accrual to MPD of MPD Mitarbeiter GbR, Dresden.

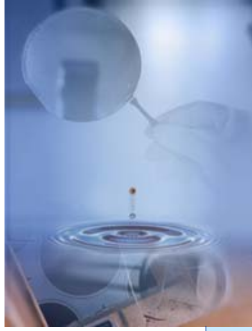
Consolidation measures and uniform Group valuation

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.

Foreign currencies

The reporting currency of the Silicon Sensor group is €, which is also the functional currency of the parent company.



(a) Foreign currency transactions

Within the group, each company defines its functional currency. Items in the company's financial statement are assessed in terms of that currency. Foreign exchange transactions are first converted into the functional currency at the spot rate applying on the transaction date. Monetary assets and debts in foreign exchange are converted into the functional currency on each reference date at the rate then prevailing. Currency differences are shown as affecting the current result. Non-monetary items assessed at historical initial/production costs in foreign exchange are converted at the rate prevailing on the transaction day. Non-monetary items whose current value has been assessed in a foreign currency are converted at the rate applying at the time when the current value was determined.

(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. Differences arising from conversion are shown as separate components of equity. If a foreign business operation is sold, the related cumulative amount shown under equity is dissolved affecting the current result.

Liquid assets

Liquid assets include cash, time deposits and call deposits.

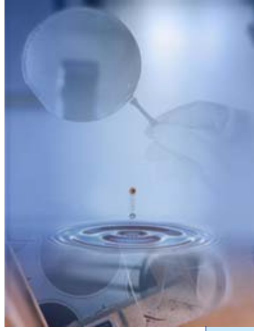
Financial assets

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.

As per Dec. 31, 2006 and Dec. 31, 2005 the SIS group merely reported extended credits and accounts receivable ("credits and accounts receivable"), financial assets held for trading purposes, and 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. After initial registration, credits and accounts receivable are assessed at net initial costs using the effective interest method, less value adjustment for depreciation. Net initial costs are calculated making allowance for any discounts and premiums on acquisition and include all charges that are an integral part of the effective interest rate and the transaction costs. Profits and losses are shown in the periodic result if credits and accounts receivable have been written off or depreciated, and as a part of repayment.

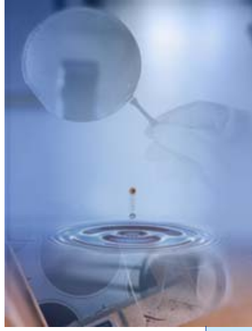
Financial assets available for sale are those non-derivative financial assets that are classified as available for sale and not placed in any of the three previous categories. After their initial valuation, financial assets held for sale are valued at their fair market value, with profits or losses booked 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, 2006, and December 31, 2005.
All classified securities available for sale are subject to public trading, their current values being based on current prices. Group securities are classified as financial assets available for sale and assessed at market value on the reporting date. Market value adjustments for securities classified as "available for sale“ are shown under equity as not affecting the operating result.

Financial assets are reviewed for depreciation on each reporting date. If it is probable that in the case of financial assets shown in the balance sheet at depreciated initial costs the company may be unable to collect all loans and receivables which fall due contractually, then depreciation or discounts on amounts receivable are shown as affecting profits. Depreciation previously shown as affecting expenditure is corrected as affecting profit if subsequent partial value increase (or reduced value loss) may objectively be attributed to circumstances which occurred after the original loss of value. A value increase is, however, only shown to the extent that it does not exceed the amount of depreciated initial costs that would have resulted in the absence of depreciation.

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.

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 € 2,850,000 (2005: € 2.35 million) are available to it. The company also has approved capital available to it totaling € 37,800 (2005: € 37,800) 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.

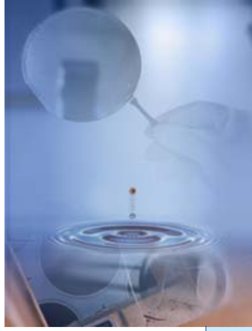
Inventories

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.

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.

Construction in progress is capitalized at initial and production costs and written off from the date of completion and commissioning. Production costs are manufacturing-related full costs including prime costs and production overheads incurred by work of company staff done in connection with the construction of facilities.

Intangible assets

The SIS group activates intangible assets,

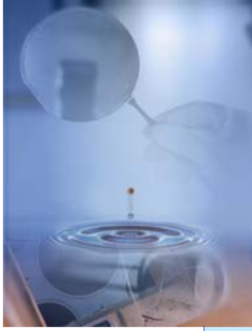
(a) if the company is the equitable owner due to past events;

(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 generated intangibles are assessed at directly attributable development costs if all requirements of IAS 38.57 have been met. Overheads necessarily incurred in generating the asset, which can be directly assigned thereto are also carried as assets. Cost capitalization ends when the product has been completed 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 completing the asset to make it available for internal use and/or sale;
2. the intention to complete the intangible asset for use or sale;
3. the ability to use or sell the intangible asset;
4. proof of the economic benefit expected in future;
5. availability of adequate technical, financial and other resources to complete development and use/sell the intangible asset, and
6. the company's ability to reliably assess the expenditure attributable to the asset during development."



In addition, acquired development work (manufacturing know-how) has been classified as an intangible where it could be reliably assessed and the utilization of development results controlled.

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.

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.

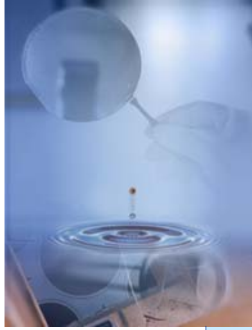
(c) Research and development costs

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 2006 or 2005 as useful life was not sufficient. Development costs shown as expense-effective amounted to € 3,528,000 in 2006 and € 965,000 in 2005.

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 (Still unutilized goodwill and intangibles).
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 allocations to reserves are discounted at an interest rate before tax if the resulting effect is considerable. In the event of discounts the increase in allocations to reserves caused by the expiration of time is shown as expenditure.

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.

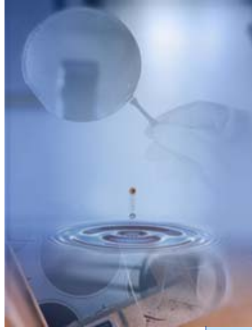
Financial debt

Financial liabilities are classified as:

- liabilities held for trading purposes, and
- other financial liabilities.

Financial liabilities shown in the consolidated financial statement of the SIS group have been classified as other financial liabilities.

When initially registering a financial liability, it is estimated at initial costs equal to the current value of a given return; transaction costs are included.



Financial liabilities are no longer shown after redemption, i.e. once the contractual obligations have been met, canceled or have expired.

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.

Contribution-oriented plans

There are contribution-oriented plans for two members of the Executive Board and three managing directors of subsidiaries. These are pension commitments made by an industry-wide pension fund to which the company pays fixed monthly contributions. Contributions paid by the group for contribution-oriented plans are allocated affecting net income for the year in question. The same applies to expenditure arising from public pension schemes.

Stock options

As remuneration for their efforts, group staff (and executives) receive share-based payments in the form of equity instruments (a so-called transaction with compensation by equity instruments).

The costs of granting equity instruments after Nov. 7, 2002 are assessed at the instruments' current value on the date when they were granted, the current value being determined by use of a suitable option price model (for details see notes, 15).

Expenditure incurred in granting equity instruments and the corresponding equity increase is shown over a period during which requirements for exercise and/or performance have to be met. This period ends on the day when an option can first be exercised, i.e. the staff member in question has an irrevocable subscription right. The accumulated expenditure for granting the equity instruments shown for each balance date until the date of the first exercise option reflects the expired part of the period and the number of equity instruments which actually become exercisable at the end of the period according to the group's best possible estimate. The amount debited or credited to the profit and loss statement reflects the development of accumulated expenditure registered at the beginning and end of the period under review.

No expenditure is shown for payment options which do not become exercisable, with the exception of options for which certain market conditions must be met. These are deemed exercisable regardless of market conditions if all other performance requirements have been met.

The dilutive effect of outstanding share options is taken into account as extra dilution when calculating results per share (for details see notes, 26).

Payments from public funds

Payments from public funds are shown if there is sufficient certainty that they are forthcoming and the company meets related requirements. Expense-related payments are regularly shown as revenue over the period required to offset them against the expenditure they are meant to compensate. Payments for an asset are shown on the liabilities side as adjusting items to be dissolved over the asset's expected useful life in equal annual installments affecting the current result.

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

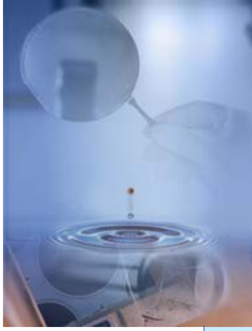
Interest is booked in proportion to time and takes account of the effective interest rate on the asset.

Dividends

Returns are shown as the legal claim for payment arises.

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.

Actual taxes relating to items shown directly under equity are not registered in the profit and loss statement but under equity.

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:

- Deferred tax claims from the first-time entry of a business value, goodwill, asset or debt in a transaction which is not a merger and at the time affects neither the result for the period in terms of commercial law, or the taxable result, may not be shown.

- Deferred tax claims from temporary differences related to holdings in subsidiaries and associated companies may not be shown if the course of reversing the temporary differences can be controlled and there is a probability that the temporary differences will not reverse in the foreseeable future.

Deferred tax claims are shown for all deductible temporary differences, losses brought forward but not used as yet, and unused tax credits to the extent taxable income will probably be available, against which the deductible temporary differences and unused losses brought forward may be offset. The following exceptions apply:

- Deferred tax claims from deductible differences arising from an asset which is assessed for the first time, or a debt resulting from a business transaction that is not a company merger and which, at the time of the business transaction, affects neither the periodic result in commercial law nor the taxable result may not be shown in the balance sheet.

- Latent tax claims from deductible temporary differences related to interests in subsidiaries, associated companies and holdings in joint ventures may only be shown to the extent that reversal of the temporary differences is probable within a reasonable time so that sufficient taxable profit is available against which the temporary differences may be offset.

The book value of deferred tax claims is verified on each balance date and written off to the extent that it is no longer probable for a sufficient taxable result to be available against which the deferred tax claim may be offset at least in part. Deferred tax claims not shown are verified on each balance day and assessed to the extent that there is a probability of a future taxable result allowing the deferred tax claim to be met.

Deferred tax claims and tax liabilities are assessed in terms of the tax rates expected to apply during the period in which an asset is sold or a liability discharged, based on tax rates (and laws) applying on the balance date.

Deferred taxes relating to items shown directly as equity are registered under equity and not as part of the profit and loss 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.

Sales tax

Sales revenue, expenses and assets are shown after deducting sales tax, with these exceptions:

- Sales tax from the purchase of assets or services which may not be claimed by the tax authority will be shown as part of the production costs of the asset and/or as part of expenses.

- Receivables and debts are stated as including the sales tax included.

Sales tax refunded by, or paid to, the tax authority is shown in the consolidated balance sheet and as receivables/debts.

Leasing agreements

Whether an agreement is, or contains, a lease is determined on the basis of its economic content and requires an assessment whether contract execution depends on the utilization of (a) certain asset(s) and whether the agreement grants a right to use the asset.

Payments for operating leases are shown on a straight line basis over the term of the lease, as expenditure in the profit and loss statement. A lease is classified as an operating lease if all risks and chances relating to ownership basically remain with the lessor.

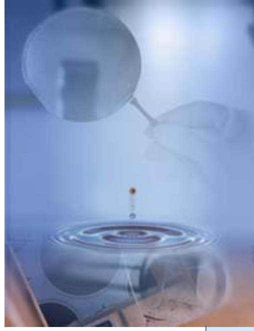
Derivative financial instruments and security relations

The group uses derivative financial instrument (interest swaps) to protect itself against interest rate risks. These instruments are assessed at current value when the agreement is concluded, and during subsequent periods. They are shown as assets if their current value is positive, and as debts if it is negative.

Profits or losses from changes in the current value of derivative financial instruments which do not meet the criteria for showing in the balance sheet as a security relation are registered immediately as affecting the current result.

The current value of interest swap contracts is determined with reference to the market values of similar instruments.

As per Dec. 31, 2006 and Dec. 31, 2005, the SIS group only used cash flow safeguards.



These are shown in the balance sheet as follows, making allowance for the strict criteria governing the treatment of security relations:

The effective portion of profits or losses from a security instrument is shown directly under equity, the ineffective portion is shown at once as affecting the current result.

Amounts shown under equity are rebooked to the profit and loss statement during the period in which the hedged transaction affects the periodic result, for example at a time when hedged financial incomes/expenditures are registered or an expected sale is made. Where a safeguard results from assessing a non-financial asset or debt, the amounts shown under equity become part of the initial costs at the time of adding the non-financial asset and/or non-financial debt.

If the proposed transaction or firm commitment is no longer expected, then the amounts previously shown under equity are rebooked to the profit and loss statement. If the security instrument expires or is sold, terminated or exercised without being replaced or rolled over into another security instrument, then the amounts previously shown under equity will remain there as separate items until the proposed transaction or firm commitment have occurred. The same applies if it is found that the security instrument no longer meets the criteria for being shown in the balance sheet.

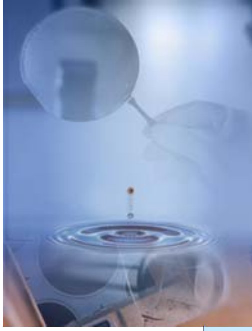
Segments

Business segments: For better control and similar to the previous year, the group was divided into two operating areas for worldwide activities during the 2006 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 07, 2007 the SIS Executive Board agreed to hand over the consolidated accounts as per Dec. 31, 2006 to the Supervisory Board.



3. Liquid funds

	2006	2005
	€ 1,000	*€ 1,000*
Cash on hand	4	3
Bank deposits	4,976	4,749
	4,980	**4,752**

Credit balances with banks and subject to call carry variable interest rates. In the previous year, credits with banks included short-term deposits, originally with due dates of three months or less. The current value of liquid funds is € 4,980,000 (2005: € 4.752,000).

As per Dec. 31, 2006 the group had unavailed credit lines in the amount of € 2,850,000 where all conditions for making recourse had been met (2005: € 2,350,000).

4. Securities

	2006	2005
	€ 1,000	*€ 1,000*
Securities available for sale	124	547
	124	**547**

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.

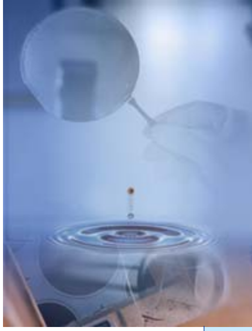
Adjustment to current value as per Dec. 31, 2006 gave an unrealized loss of € 26,000 (2005: < € 1).

5. Accounts receivable

	2006	2005
	€ 1,000	*€ 1,000*
Trade receivables	4,778	3,158
Less value adjustments on delinquent receivables	-146	-159
	4,632	**2,999**

Trade debtors are free of interest and a normal maturity of 30 – 90 days.

Amounts from sales of goods which are probably irrecoverable were value adjusted at the rate of € 146,000 (2005: € 159,000) (effect in terms of profit and loss statement: revenue of € 13,000). The level of value adjustment was determined on the basis of past debt losses.



6. Inventories

	2006	2005
	€ 1,000	*€ 1,000*
Finished goods and goods for resale at sale value, net	124	35
at historical/ production value	1,145	1,013
Subtotal	**1,269**	**1,048**
Work in progress at sale value, net	37	273
at production value	1,812	1,611
Subtotal	**1,849**	**1,884**
Raw materials and supplies at historical costs	2,452	1,440
Total	**5,570**	**4,372**

The depreciation of inventories shown as expenditure amounts to € 116,000 (2005: € 299,000). This expenditure is shown as direct materials cost.

7. Accrued income and other short-term assets

	2006	2005
	€ 1,000	*€ 1,000*
Accruals	326	160
Investment grant receivable	180	0
Tax refund claims	111	456
Others	322	140
	939	**756**

8. Tangible assets

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Payments on account and construction in progress	2005 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Historical costs					
Jan. 1, 2005	**3,401**	**5,793**	**2,994**	**145**	**12,333**
Additions	0	397	178	350	925
Increases through acquisition of a subsidiary	0	4.520	314	0	4,834
Disposals	0	-129	-62	-18	-209
Rebookings	0	151	1	-152	0
Monetary differences	0	18	22	0	40
Dec. 31, 2005	**3,401**	**10,750**	**3,447**	**325**	**17,923**
Accumulated depreciation					
Jan. 1, 2005	**1,326**	**4,224**	**2,385**	**0**	**7,935**
Depreciation	109	766	250	0	1,125
Disposals	0	-126	-60	0	-186
Monetary differences	0	11	13	0	24
Dec. 31, 2005	**1,435**	**4,875**	**2,588**	**0**	**8,898**
Net book value Jan. 1, 2005	**2,075**	**1,569**	**609**	**145**	**4,398**
Net book value 31 Dec. 2005	**1,966**	**5,875**	**859**	**325**	**9,025**

	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Payments on account and construction in progress	2006 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	***€ 1,000***
Historical costs					
Jan. 1, 2006	**3,401**	**10,750**	**3,447**	**325**	**17,923**
Additions	1,326	1,732	534	1,332	4,924
Disposals	0	0	-74	-3	-77
Rebookings	0	629	4	-643	-10
Monetary differences	0	-16	-19	0	-35
31 Dec. 2006	**4,727**	**13,095**	**3,892**	**1,011**	**22,725**
Accumulated Depreciation					
Jan. 1, 2006	**1,435**	**4,875**	**2,588**	**0**	**8,898**
Depreciation*	110	1,637	388	0	2,135
Disposals	0	0	-71	0	-71
Monetary differences	0	-11	-12	0	-23
31 Dec. 2006	**1,545**	**6,501**	**2,893**	**0**	**10,939**
Net book value Jan. 1, 2006	**1,966**	**5,875**	**859**	**325**	**9,025**
Net book value 31 Dec. 2006	**3,182**	**6,594**	**999**	**1,011**	**11,786**

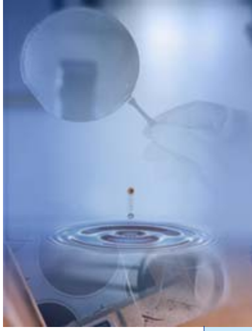
* Depreciation contains unscheduled write-offs worth € 105,000

The book value of the group's plant and machinery includes assets held under financing leases worth € 1,303,000 (2005: € 799,000).

Additions of properties and buildings in 2006 involved demolition and land reclamation commitments worth € 1,289,000 for a site purchased (see notes, 11).

9. *Intangible assets and goodwill*

	Software	Goodwill	Develop-ment	payments on account	2005 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Historical costs					
Jan. 01, 2005	**716**	**2,324**	**0**	**0**	**3,040**
Additions	22	0	0	10	32
Increases through acquisition of a subsidiary	127	9,296	6,000	0	15,423
Disposals	-4	-478	0	0	-482
Monetary differences	4	0	0	0	4
Dec. 31, 2005	**865**	**11,142**	**6,000**	**10**	**18,017**
Accumulated depreciation					
Jan. 01, 2005	**583**	**478**	**0**	**0**	**1,061**
Depreciation	88	0	0	0	88
Disposals	-4	-478	0	0	-482
Monetary differences	2	0	0	0	2
Dec. 31, 2005	**669**	**0**	**0**	**0**	**669**
Net book value Jan. 01, 2005	**133**	**1,846**	**0**	**0**	**1,979**
Net book value Dec. 31, 2005	**196**	**11,142**	**6,000**	**10**	**17,348**



	Software	Goodwill	Develop-ment	payments on account	2006 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Historical costs					
Jan. 01, 2006	**865**	**11,142**	**6,000**	**10**	**18,017**
Additions	82	0	0	5	87
Disposals	0	0	0	0	0
Rebookings	10	0	0	0	10
Monetary differences	-2	0	0	0	-2
Dec. 31, 2006	**955**	**11,142**	**6,000**	**15**	**18,112**
Accumulated depreciation					
Jan. 01, 2006	**669**	**0**	**0**	**0**	**669**
Rebookings	133	0	50	0	183
Disposals	0	0	0	0	0
Monetary differences	-2	0	0	0	-2
Dec. 31, 2006	**800**	**0**	**50**	**0**	**850**
Net book value Jan. 01, 2006	**196**	**11,142**	**6,000**	**10**	**17,348**
Net book value Dec. 31, 2006	**155**	**11,142**	**5,950**	**15**	**17,262**

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

SIS acquired 84.03 % of MPD in the financial year 2005. From this purchase, SIS shows a company goodwill of € 9,296,000.

Pursuant to IAS 36, MPD's goodwill as per Dec. 31, 2006 was reviewed for a possible loss of value based on these assumptions:

- Annual growth in sales between 20 % and 25 % over the 2007 – 2010 planning period.
- Productivity improvements and related fixed cost degression could reduce personnel costs over the planning period by some 4 %.
- From 2008, constant depreciation and reinvestment is planned at equal levels.
- The discount factor based on the WACC method will be 8.09 %.

No need for a value reduction in 2006 was seen as a result of these considerations. In 2005, value content was not verified because purchase price allocation had not been fully completed.

From the acquisition of all shares of LME in business year 2000, SIS shows a company goodwill of € 1,846,000.

Pursuant to IAS 36, LME's goodwill as per Dec. 31, 2006 was reviewed for a possible loss of value based on these assumptions:

- Minor sales decline in 2007, followed by a slow increase in sales revenue which, however, remains below 2006 turnover for the planning period.
- The 5-year outlook assumed that all cost trends due to materials and personnel could be passed on to customers. No additional cost increases are expected.

- Replacement investments will be slightly below annual depreciation
- The discount factor based on the WACC method will be 7.38 %.

No need for a value reduction in 2006 was seen as a result of these considerations, and there was no exceptional value reduction for LME in 2005.

10. Shares in associated companies

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

	share		2006	2005
	%		TEuro	TEuro
Heimann Sensor GmbH	24,9		99	268
MPD Mitarbeiter GbR	0,0	(2005: 37,5)	0	148
			99	**416**

In 2006, MPD bought all GbR shares of MPD Mitarbeiter GbR which thus accrued to MPD itself. This purchase was related to the acquisition of minority interests in MPD.

	2006	2005
	€ 1,000	€ 1,000
Balance sheet share of the associated companies		
- short term assets	399	227
- long term assets	6	56
- short term liabilities	239	236
- long term liabilities	121	0
- equity	45	46
Sales and result share of the associated companies		
- Sales revenue	849	411
- Result	-3	22
Book value of the shares in associated companies	99	416

11. Provision

	Warranty	Other	Total
	€ 1,000	€ 1,000	€ 1,000
Dec. 31, 2005	**299**	**45**	**344**
Additions	241	1,341	1,582
Consumption	80	45	125
Dec. 31, 2006	**460**	**1,341**	**1,801**
Short-term	368	1,341	1,709
Medium/ long term	92	0	92
Dec. 31, 2006	**460**	**1,341**	**1,801**

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.

Other reserves include an amount of € 1,289,000 for a demolition and land reclamation commitment made when purchasing a property. The allowance was estimated based on offers in hand.

12. Other short-term liabilities

	2006	2005
	€ 1,000	€ 1,000
For wages/ salaries	1,048	767
Sales delimitation	600	0
For wage/ church tax	312	139
For sales tax	76	42
For social security	4	192
Interest rate swap	0	50
Other	836	383
	2,876	**1,573**

13. Short-term loans

	2006	2005
	€ 1,000	€ 1,000
Collateralized		
Debts from finance leasing agreements and hire-purchase agreements (Explanation 28)		
1.90 % Interest	183	0
2.06 % Interest	25	41
2.38 % Interest	7	6
2.43 % Interest	17	16
2.53 % Interest	104	92
Bank loan		
5.50 % Interest	47	45
5.90 % Interest	24	23
6.45 % Interest	287	311
6.75 % Interest	31	39
5.00 % Interest	67	67
5.15 % Interest	67	133
5.60 % Interest	267	267
3-month Euribor + 2.25 %	400	0
3-month Euribor	1,125	1,125
Total, short-term loans	**2,651**	**2,165**

The short-term credits are due in 2007 and also contain the short-term part of the long-term debts.

14. Long-term interest-bearing loans

	2006	2005
	€ 1,000	€ 1,000
Collateralized		
Loan from leased assets or lease agreements		
1.90 % Interest, due in 2008 to 2011	725	0
2.06 % Interest, due in 2008 to 2010	50	103
2.38 % Interest, due in 2008	4	11
2.43 % Interest, due in 2008	9	26
2.53 % Interest, due in 2008 to 2009	364	468

Bank loan		
5.50 % Interest, due in 2008 to 2009	59	106
5.90 % Interest, due in 2008	19	43
6.45 % Interest, due in 2008 to 2009	34	51
6.45 % Interest, due in 2007	0	269
6.75 % Interest, due in 2008 to 2009	44	71
5.00 % Interest, due in 2008 to 2009	100	167
5.15 % Interest, due in 2007	0	67
5.60 % Interest, due in 2008 to 2009	400	667
3-month Euribor + 2.25 %, due in 2008 to 2011	1,600	2,625
3-month Euribor, due in 2008 to 2013	2,250	0
3-month Euribor, due in 2008 to 2009	1,500	2,250
	7,158	**6,924**

Long/short-term bank loans at 5.0 %; 5.15 % and 5.6 %

These are secured by the pledging of shares in LME and a registered land charge. The net book value of LME assets and debts in the consolidated financial statement is € 4,590,000 (previous year: € 4,608,000). The land charge is € 1,380,000 (previous year: € 1,380,000). Constant semi-annual redemption at the end of the 1st and 3rd quarters has been agreed.

Long/short-term loans at 3-month Euribor

For financing the purchase of the shares in MPD, SIS took out loans on September 30, 2005. On December 31, 2006, these loans comprised the following:

1. Tranche for EUR 1.1 million, variable interest (3-month Euribor + spread), term to 2009
2. Tranche for EUR 1.1 million, variable interest (3-month Euribor + spread), term to 2009
3. Tranche for EUR 1.3 million, variable interest (3-month Euribor + spread), term to 2013
4. Tranche for EUR 1.3 million, variable interest (3-month Euribor + spread), term to 2013

Quarterly repayment on the last day of the month has been agreed for long-term bank credits.

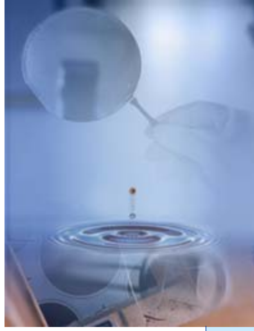
The loans are collateralized by pledge of shares in MPD.

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.

Bank loans at Euribor + 2.25 %

This 5-year loan with installment redemption is to be repaid from March 30, 2007 in equal quarterly installments and is not secured.

A covenant in the loan agreement commits MPD to keeping the min. equity ratio at 35 % of total assets.

If the above obligations are not observed, the creditors reserve the right to register/increase bank securities.

To safeguard the present interest rate, MPD has undertaken to conclude a cap on interest. The interest safeguard is shown in note 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.

Apart from contributions to the public pension scheme of approx. € 610,000 (2005: approx. € 340,000), the company pays into contribution-oriented plans for two members of the SIS Executive Board and, proportionately, for three managing directors of subsidiaries at the rate of € 208,000 (2005: € 157,000).

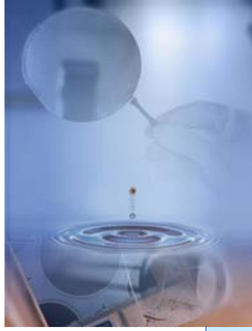
Stock option plan

Stock option plans drawn up in 2001 (SOP 2001), 2002 (SOP 2002) and 2006 (SOP 2006) 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 max. period of validity (waiting time plus exercise period) of an option is 7 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



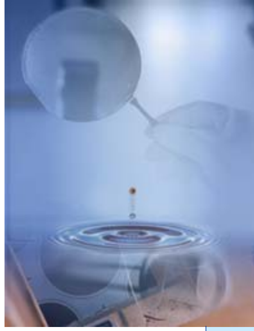
("exercise window"). The hurdle is reached if the closing price of the company's share in XETRA trading (or a comparable follow-up system) exceeds the average exercise price by more than 10 % on five successive trading days (SOP 2001, SOP 2002) or by more than 20 % (SOP 2006) the performance of the company's 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.

SOP 2006 runs for 3 years. Over this period, a max. of 233,000 subscription rights from the plan's overall volume may be issued in annual tranches to all entitled persons. These rights may only be issued in the 9 months following publication of results at the end of a business year by the Executive Board. During the business year, 130,000 subscription rights were granted to staff, executives and the Executive Board on June 29, 2006. The issue price corresponds to the company's average share price in XETRA trading (or a comparable follow-up system) over the five trading days preceding the date of issue of the subscription right, and at least to the pro-rata amount of capital stock falling on one share of the company. The average price of options issued as per June 29, 2006 was € 9.33.

(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:

	2006 Number	2006 GDAP	2005 Number	2005 GDAP
Outstanding at beginning of the reporting period	109,500[1]	€ 4.24	137,500[1]	€ 4.19
Granted during the reporting period	130,000	€ 9.33	0	€ 0
Exercised during the reporting period	65,000	€ 3.80[3]	28,000	€ 3.97[4]
Outstanding at end of the reporting period	**174,500[5]**	**€ 8.20**	**109.500[1]**	**€ 4.24**
Exercisable at the end of the reporting period	44,500	€ 4.89	109,500	€ 4.24

1 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.

2 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.

3 The average share price at the time the option is exercised measures € 12.72.

4 The average share price at the time the option is exercised measures € 10.63.

5 This includes options for purchase of 30,000 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.

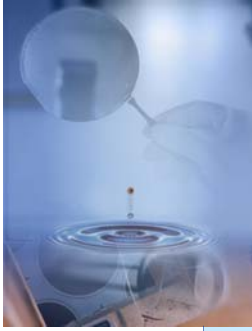
The weighted average remaining contract term for the options outstanding on December 31, 2006 is 5.5 years (2005: 3.91 years).

The option exercise prices for options outstanding at the end of the period of the report are in the range between € 3.55 and € 9.33 (2005: € 3.55 – € 6.39).

Present stock option plans involve compensation by equity instruments so that current value is determined at the time the option is granted. The following table shows the parameters behind issues from SOP 2006 in the 2006 business year, and behind an adjustment made during the previous year due to the introduction of IFRS 2 for SOP 2001/ 2002 in a Black-Scholes model:

	SOP 2006	SOP 2001/2002
Dividend return (%)	0.00	0.00
Expected volatility (%)	37.24	74.63
No-risk interest rate (%)	4.00	3.65
Anticipated option term (yrs.)	2-4	7
Weighted average share price (€)	9.20	3.45

The anticipated option term is based on historical data does not necessarily reflect the actual exercise behavior of those entitled. Allowed/expected



volatility rests on the assumption that future trends may be derived from historical volatilities, even though actual volatility may differ from assumptions.

16. Accrued items

Accrued items relate to public allowances.

These developed as follows:

	2006	2005
	€ 1,000	*€ 1,000*
January 1	**1,473**	**259**
Increase from acquisition of a subsidiary	0	1,299
Granted during the financial year	384	23
Dissolved with effect on profit	383	108
December 31	**1,474**	**1,473**

17. Subscribed capital

The capital stock, disclosed in the Balance Sheet as subscribed capital, measured € 10,569,000 on the balance sheet date 31 December 2006 and is made up of 3,522,900 no-par shares at an accounting nominal value of € 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)*	
	2006	2005	**2006**	2005
January 01	**3,458**	**2,318**	**10,374**	**6,953**
Issue of new shares from the stock option plan	65	28	195	84
Issue of new shares through cash capital increase	0	1,112	0	3,337
December 31	**3,523**	**3,458**	**10,569**	**10,374**

The General Meeting of SIS AG on June 15, 2006 authorized the Executive Board to buy back company shares worth up to 10 % of the capital stock. Authorization expires on Dec. 14, 2007.

Approved capital

Making partial use of an authorization from the General Meeting, the Executive Board resolved on Sept. 12, 2005 – subject to the consent of the Supervisory Board and the acquisition of 84.03 % of the shares of MPD from Zentrum Mikroelektronik Dresden AG, Dresden – to increase the company's capital stock from € 6,952,500.00 by up to € 3,337,200.00 to a max. of € 10,289,700.00 on deposit by issuing up to 1,112,400 new ordinary shares made out to bearer, in the form of non-par individual share certificates with a calculated capital stock proportion of € 3.00 per share ("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 were entitled to a profit share from Jan. 1, 2005. The capital increase was entered in the company's commercial register on Oct. 27, 2005.

The remaining authorized capital thus measures € 37,800 on December 31, 2006 (2005: € 37,800).

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.

Contingent capital

This is shown in the following table:

	2006	2005
	€ 1,000	*€ 1,000*
Contingent capital I	86	165
Contingent capital II	48	164
Contingent capital III	0	600
Contingent capital IV	699	0
	833	**929**

Contingent capital I + II

As per Dec. 31, 2006, contingent capital I + II of € 133,500 (2005: € 328,500) was available for issuing 44,500 (2005: 109,500) new individual share certificates made out to bearer and entitled to a profit share from the beginning of the business year in which they were issued. The capital increase takes place only to the extent that those with subscription rights exercise them under the stock option plans for 2001 and 2002.

During the business year, 26,500 (2005: 17,500) option rights from contingent capital I and 38,500 (2005: 10,500) option rights from contingent capital II were exercised under the stock option program for staff. A total of 65,000 (2005: 28,000) new individual share certificates were subscribed so that the capital stock grew by € 195,000 (2005: € 84,000). This brings the fully deposited capital stock as entered in the commercial register to € 10,568,700,000 as per Dec. 31, 2006 (2005: € 10.373.700,000).

Contingent capital III

In addition, the company's capital stock was conditionally increased by up to € 600,000 by issuing 200,000 new individual share certificates made out to bearer and entitled to a profit share from the beginning of the business year in which they were issued (contingent capital III). The conditional capital increase was possible until Dec. 31, 2006 only to the extent that bearers of convertible and option bonds exercised their conversion or subscription privileges. Contingent capital III was not utilized by Dec. 31, 2006 and has therefore expired.

Contingent capital IV

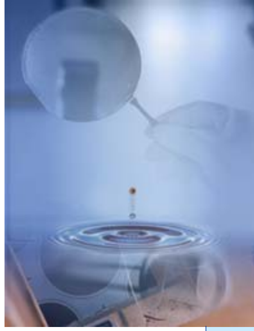
The General Meeting on June 15, 2006 conditionally increased the capital stock by up to a nominal € 699,000 by issuing 233,000 new individual share certificates made out to bearer and entitled to a profit share from the beginning of the business year in which they were issued (contingent capital IV). The conditional capital increase takes place only to the extent that those holding subscription rights issued under the 2006 stock option plan under authorization given on June 15, 2006 exercise these rights.

18. Reserves

The reserves developed in financial year 2005 and 2006 as follows:

	Share premiums	Retained earnings	Unrealizied earnings/ losses	**Total**
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
January 1, 2005	**3,216**	**175**	**0**	**3,391**
Agio from the issue of new shares through cash capital increase	0	0	-50	-50
Agio from the issue of new shares through the exercise of share options	0	-190	0	-190
Share-based payment	7,676	0	0	7,676
Increase in the current value of interest-rate hedging derivatives	27	0	0	27
Transaction costs of capital increase	0	45	0	45
December 31, 2005	**10,919**	**30**	**-50**	**10,899**
Transaction costs of capital increase	0	-29	0	-29
Agio from the issue of new shares through the exercise of share options	52	0	0	52
Share-based payment	0	81	0	81
Minority acquisition	0	-1,579	0	-1,579
Profits realized from securities available for sale which have been regrouped into the profit and loss statement	0	0	-13	-13
Losses securities available for sale which have been regrouped into the profit and loss statement	0	0	12	12
Unrealized losses from the securities available for sale	0	0	-24	-24

Non-realized profits from cash flow safeguards	0	0	84	84
Losses from cash flow safeguards	0	0	14	14
December 31, 2006	**10,971**	**-1,497**	**23**	**9,497**



Share premiums

In 2006, 65,000 (2005: 28,000) new shares were subscribed under the stock option program for staff. The premium exceeding the nominal value, € 52,000 (2005: € 27,000) was appropriated to reserves for share premiums.

Retained income

a) Transaction costs
Retained income showed the costs incurred in the issue of new shares in business year 2005 for official charges, legal advisors, CPAs and other consultants as a deduction from equity (less related earnings tax benefits) (€ 190,000). Subsequent cost of € 29,000 were apportioned in 2006.

b) Stock options
IFRS 2 was introduced during the 2005 reporting period. The stock option program (IFRS 2 „share-based payments") SOP 2002 was shown in the balance sheet retroactively at the time of issue. During the previous reporting period, € 45,000 was shown as affecting the current result as part of personnel expenses and appropriated to retained income. No further costs from SOP 2002 were incurred in 2006.

A new stock option program, SOP 2006, resulted in expenditure which was distributed over the vesting period, shown as € 81,000 (previous period € 0) affecting the current result as part of personnel costs and appropriated to retained income.

c) Minority acquisition
In 2006, minority interest were acquired in MPD and SIP. Using the Equity Concept method, the difference between initial costs and the book value of the shares purchased (€ 1,579,000) was shown as retained income.

Reserve for non-realized profits/losses

This shows changes in the current values of financial investments available for sale and, in addition, that portion of profits or losses from a cash flow security instrument which is determined as an effective safeguard.

Monetary compensatory amounts

The consolidated financial statement also has a reserve, under equity, for foreign exchange differences (monetary compensatory amounts), which shows differences from the conversion of the financial statement of a foreign subsidiary. In addition, it shows the effects of safeguarding net investments into foreign business operations.

19. Sales revenue

	2006		2005	
	€ 1,000	*%*	*€ 1,000*	*%*
Germany	21,149	64.79	12,173	76.23
Europe	9,446	28.94	2,667	16.70
USA	1,367	4.19	1,115	6.98
Others	678	2.08	14	0.09
	32,640	**100.00**	**15,969**	**100.00**

20. Other operating income

This is composed as follows:

	2006	2005
	€ 1,000	*€ 1,000*
Income from public subsidies	773	293
Revenue from grants		
• Investment grants	263	108
• Investment subsidies	117	58
Income from other payment in kind	161	155
Below-the-line items	66	22
Insurance recoveries	11	9
Others	377	96
	1,768	**741**

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

	2006	2005
	€ 1,000	*€ 1,000*
Work in progress	-35	-92
Finished goods	222	65
	187	**-27**

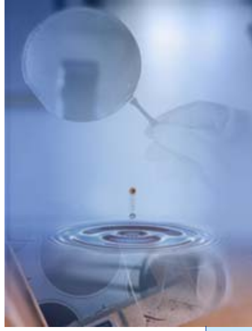
22. Cost of raw materials, supplies and purchased services

Expenses for material and purchased services are composed as follows:

	2006	2005
	€ 1,000	*€ 1,000*
Raw materials and supplies	10,508	4,550
Purchased services	642	695
	11,150	**5,245**

23. Personnel expenses

These are composed as follows:



	2006	2005
	€ 1,000	*€ 1,000*
Wages, salaries	9,202	4,931
Social insurance contributions including old-age	1,733	948
	10,935	**5,879**

24. Other operating costs

These include the following items:

	2006	2005
	TEuro	*TEuro*
Miet- und Raumkosten	859	381
Goods delivery costs	439	118
Maintenance expenses	363	144
Advertizing expenses	336	191
Warranty	306	19
Packaging	257	67
Travel/ entertainment expenses	236	122
Legal/ consulting expenses	202	110
Motor vehicle costs	198	97
Insurance	193	136
Auditing, preparation of annual/interim accounts, bookkeeping costs	158	167
Costs of investor / public relations	136	124
Leasing costs	120	93
Outgoing freights	108	49
Communication costs	76	43
Losses due to the disposal of fixed/current assets	63	17
Costs of General Meeting	60	50
Incidental costs of money transactions	41	22
Directors' fees	38	36
Patent costs	9	3
Others	557	555
	4,755	**2,544**

25. Tax on income and profits

The general elements in income tax expenditure for financial years 2006 and 2006 are made up as follows:

	2006	2005
	€ 1,000	*€ 1,000*
Actual tax expense	2,064	440
Adjustments for non-period actual income taxes recorded in the period	-59	-226
Deferred tax expense / (income) from the reversal of temporary differences	-30	5
Deferred taxes from items directly deduced from equity	18	121
Income tax expenditure disclosed in the consolidated Income Statement	**1,993**	**340**

The transition between income tax expense and the product of balance sheet period result and the group's applicable tax rate for business years 2006 and 2005 comprises the following:

	2006	2005
	€ 1,000	*€ 1,000*
Profit before income taxes	**5,003**	**1,763**
Tax expenses at booked tax rate	**1,946**	**686**
Reconciliation at disclosed income tax expenditure		
Adjustment for non-period actual income taxes	-59	-347
Use of tax loss carryforwards	-11	-110
Taxes on transaction costs	18	121
Tax-free income	0	-10
Other	99	0
Tax expense	**1,993**	**340**

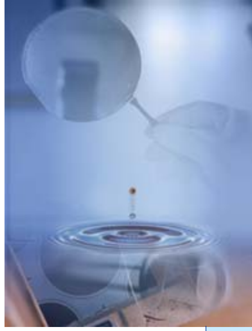
The deferred income taxes consist of the following at the balance sheet date:

	Consolidated Balance Sheets		Consolidated Income Statements	
	2006	2005	2006	2005
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
Provisions for pensions	0	0	0	-24
Other provisions	20	17	3	2
Deferred income tax claims	**20**	**17**		
Assessment of the securities available for sale at the current value	10	5	-5	5
Adjustment to current value on purchase (developments)	2,314	2,334	20	0
Land LME	225	237	12	12
Deferred income tax debts	**2,549**	**2,576**		
Deferred income tax expenditure/income			**30**	**-5**

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 business years 2006 and 2005 the parent company's weighted average tax rate (corporation tax, business tax, solidarity surcharge) used to calculate latent tax amounted to 38.9 %. The group's current tax planning assumes that no major earnings effects causing an earnings tax burden may be expected from foreign subsidiaries in the short/medium run so that a possible effect from differing foreign tax rates has been neglected. Correspondingly, the full losses of foreign subsidiaries brought forward are not capitalized. PSS tax losses brought forward amount to € 781,000 (2005: € 808,000). These carryovers have been estimated in the absence of tax bills. Losses brought forward byl PSS lapse after 20 years. There are no tax losses brought forward by domestic subsidiaries for business years 2006 and 2005.



26. Net earnings per share

When calculating the undiluted result per share, the result to be allocated to bearers of ordinary shares of the parent company is divided by the weighted average number of ordinary shares circulating during the year.

When calculating the diluted result per share, the result to be allocated to bearers of ordinary shares of the parent company is divided by the weighted average number of ordinary shares circulating during the year, plus the weighted average number of ordinary shares that would result from converting all potential ordinary shares with dilutive effects into ordinary shares.

The following table shows the amounts assumed for calculating undiluted and diluted results per share:

	2006	2005
	€ 1,000	*€ 1,000*
Results to be allocated to bearers of ordinary shares of the parent company	3,007	1,339

	2006	2005
	In Thousand	*In Thousand*
Weighted average number of ordinary shares for calculating the undiluted result per share	3,468	2,554
Dilutive effect: share options	26	47
Weighted average number of ordinary shares adjusted by the dilutive effect	3,494	2,601

No transactions involving (potential) ordinary shares took place between the balance sheet day and the preparation of the consolidated financial statement.

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

(1) In future, court proceedings and claims resulting from legal disputes in the normal course of business could be enforced vis-à-vis companies in the group. Related risks are analyzed with a view to probability. Even though the outcome of such disputes is difficult to ascertain, the Executive Board believes that no major obligations will result.

(2) Financial obligations also result from renting office space and equipment, leasing cars, office systems and buildings, and from payments made under contributory pension plans. Leasing agreements have average terms between 3 and 20 years, with renewal/purchase options only for buildings. Lessees incur no obligations when concluding leases.

The resulting contingent liabilities are as follows:

	2007	2008 - 2012	as of 2013
	€ 1,000	*€ 1,000*	*€ 1,000*
Rental, leasing	780	1,659	2,514
Contribution-oriented pension plans	191	792	840
	971	**2,451**	**3,354**

Rental and leasing expenditure incurred over the entire contract period was € 4,953,000 (previous year: € 5,365,000). Total rental and leasing liabilities affecting expenditure for the 2006 business year were € 744,000 (previous year: € 474,000) as shown in the profit and loss statement.

(3) 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	0
Less interest expense due to discount	-94	0
Cash value of minimum leasing payments	**763**	**763**

	2006	
	Minimum leasing payments	**Cash value of minimum leasing payments**
	€ 1,000	*€ 1,000*
Within one year	381	358
Between one and five years	1,293	1,244
Total minimum leasing Payments	1,674	0
Less interest expense due to discount	-72	0
Cash value of minimum leasing Payments	**1,602**	**1,602**

29. Segment reporting

This is provided on the following basis:

(1) Business divisions

Application-oriented chip and component manufacture

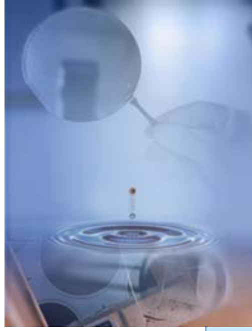
In this segment, the group primarily develops and manufactures high-quality user-specific silicon sensors which have uses, for instance, in the geodetic surveying of the earth, and in monitoring the blood and circulatory functions of astronauts. In addition, chips are made into customized hybrid ICs 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	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	€ 1,000	*€ 1,000*	***€ 1,000***	*€ 1,000*	***€ 1,000***	*€ 1,000*	***€ 1,000***	*€ 1,000*
Sales								
External sales	32,358	15,681	282	288		0	32,640	15,969
Intercompany turnover		43		0		-43		0
Total		**15,724**	**282**	**288**		**-43**	**32,640**	**15,969**
Result								
Segment result	5,469	1,963	15	33			5,484	1,996
Interest revenue/ expense							-382	-264
Currency earnings/ losses							-54	9
Income from securities of current assets							-45	22
Income tax							-1,993	-340
Profit							**3,007**	**1,339**
Assets								
Segment assets	45,065	39,590	369	409			45,434	39,999
Latent tax claims							20	17
Tax refund claims							0	364
Sum of assets							**45,454**	**40,380**
Debts								
Segment debts	7,688	4,251	58	108			7,746	4,359
Latent tax liabilities							2,549	2,576
Short-term loans							2,651	2,165
Tax liabilities							1,478	865
Long-term interest-bearing loans							7,158	6,924
Sum of debts							**21,582**	**16,889**
Other information								
Investments	3,708	954	14	3			3,722	957
Depreciation	2,296	1,201	22	11			2,318	1,212
Other expenditure not affecting payments	81	45					81	45



(2) Geographical segments

Sales	2006	2005
	€ 1,000	*€ 1,000*
Germany	21,152	12,173
Europe	9,414	2,667
USA	1,884	1,115
Others	190	14
	32,640	**15,969**

Assets	2006	2005
	€ 1,000	*€ 1,000*
Germany	44,439	39,032
USA	995	967
Segment assets	**45,434**	**39,999**

Investment	2006	2005
	€ 1,000	*€ 1,000*
Germany	3,662	925
USA	60	32
	3,722	**957**

30. Transactions between affiliated companies and persons

Transactions involving persons or companies on whom the reporting company might exert influence or who might exert influence on the reporting company should be disclosed unless these transactions have already been covered by including consolidated companies in the consolidated financial statement.

The following transactions involved persons and companies deemed to be close to the SIS group:

Executive Board of SIS AG:

Dr. Bernd Kriegel, Berlin
Dr. Hans-Georg Giering, Berlin

Current payments to Executive Board members for the 2006 business year amounted to:

	Dr. Kriegel	Dr. Giering	Total	Vorjahr
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
Non-Profit-related pay	342	255	597	593
Profit-related pay	241	241	482	180
Total	583	496	**1,079**	**773**

Non-Profit-related pay includes payments to contribution-oriented pension plans, see Note 15.

In addition, the two members of the Executive Board were each granted 30,000 share options under a new stock option plan. The value of stock options granted to members of the Executive Board is € 150,000. Of this, € 25,000 has been registered expense-effective in business year 2006.

Of the subscription rights dating from previous years, Executive Board members exercised rights worth € 52,000 in 2006 (2005: € 0). A total of 5,000 subscription rights had issue prices of € 5.27, 10,500 others issue prices of € 4.11, and another 36,500 prices of € 3.55. The Executive Board presently holds 74,000 subscription rights (2005: 66,000) (for the reference date).

Supervisory Board of SIS AG:

Board members in 2006 received payments of € 38,000 (2005: € 36,000) but are not granted stock options.

Other close persons/companies:

Heimann Sensor GmbH, Dresden (associated, 24.9 % share)
Families of Executive Board members

	2006	2005
	TEuro	*TEuro*
MPD sales revenue from dealing with Heimann Sensor GmbH	168	35*
Total	**168**	**35***

* proportionate since acquisition

	2006	2005
	TEuro	*TEuro*
Receivable from Heimann Sensor GmbH	34	0
Total	**583**	**496**

In 2006, SSO bought a vehicle worth € 40,000 from the family member of an Executive Board member.

31. Financial instruments

Risk management for financial instruments

The group has activities at international level and thus exposed to market risks from fluctuating exchange rates. In addition, company financing is partly from bank loans, which involves interest risks. During business year 2005 the company made security transactions to cover interest risks. Foreign exchange risks are reduced by the independent operative activity of PSS. Apart from trade debtors, the company's essential financial instruments are liquid assets and bank liabilities. These are aimed at financing operating business. There are principally payment, liquidity, exchange rate, interest and current value risks

The main financial instruments used by the group – except for the derivative type – include bank loans, current account credits, financing leases, hire purchase contracts, currencies and short-term deposits. Their principal purpose is to finance the business activity of the group which also has other financial assets and debts such as receivables and debts from accounts payable which result directly from its business activity.

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 € 1,125,000 (2005: € 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 € 2,625,000 (2005: € 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, 2006 is estimated at € 49,000 (2005: € -50,000). 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. Over the period, incurred and hedged interest payments of € 14,000 (2005: € 0) were allocated.

Zinscap

The group uses a cap on interest to protect itself against the risk of interest rate fluctuation from bank liabilities. A ceiling of 4.0 % p. a. has been fixed for liabilities with nominal values of € 2,000,000 (2005: € 0).

The current value of the cap on Dec. 31, 2006 has been estimated at € 17,000 (2005: € 0), based on the market values of equivalent financial instruments on the reporting date. The cap has been introduced to safeguard the cash flow and found efficient. No incurred hedged interest payments have been allocated during the reporting period.

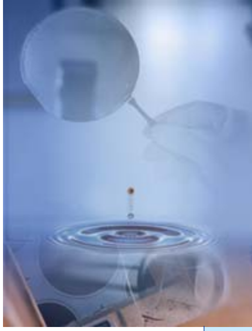
32. Other notes as provided for by HGB

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

Dr. Hans-Georg Giering, Deuben/Berlin
Dr. of Physics



Members of the Supervisory Board

Edgar Most, Berlin *Bank Manager*	Chairmann *since June 22, 2005* Deputy Chairman *since March 01, 2005* *to June 22, 2005*

Other Supervisory Board mandats:

▪ Hanse-Klinikum Stralsund GmbH	
▪ Hanse-Klinikum Wismar GmbH	
▪ Institut für Getreideverarbeitung GmbH, Potsdam	Deputy Chairman
▪ LEIPA Georg Leinfelder GmbH, Schwedt	Chairman
▪ Peene-Werft GmbH, Wolgast	
▪ Sodawerk Straßfurt GmbH & Co. KG, Straßfurt	Chairman

Memberships in comparable supervisory bodies:

▪ BioCon Valley GmbH, Greifswald	
▪ DRESEARCH Digital Media Systems GmbH, Berlin	Chairman
▪ Vernetzte Gesundheit e. V.	

Dr. Michael Altwein, Darmstadt *Master of Physics*	Deputy Chairman *since June 22, 2005* *since June 24, 2004* *to Feb. 28, 2005* Chairman *since March 01, 2005* *to June 22, 2005*
Ernst Hofmann, Wiesbaden *Business consultant*	*since June 18, 2002*
Kurt Ochner, Stuttgart *Graduate in Business Administration,* *Member of Executive Board KST Beteiligungs AG*	*since June 22, 2005*

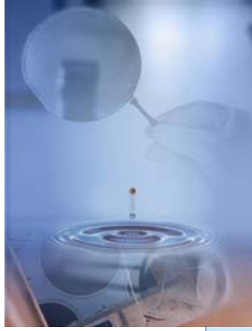
Weitere Aufsichtsratsmandate:

▪ Blättchen & Partner AG, Leonberg	Deputy Chairman
▪ Investorsmedia AG, Frankfurt	
▪ Sinosol AG, Stuttgart	Chairman
▪ Wietler & Partner AG, Mannheim	

Prof. Dr. Hans Richter, Frankfurt/O. *Director, IHP BTU Joint Lab*	*since June 18, 2005*
Dr. Rudolf Scheid, Swistthal *Lawyer*	*since June 18, 2005* Chairman *since June 18, 2002* *to June 24, 2004*

Former members of the Supervisory Board

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



Data pursuant to § 160 para. 1 no. 8 AktG

During business year 2006 and prior to publishing the financial report, SIS received these communications pursuant to § 21 para. 1 WpHG which were published pursuant to § 26 para. 1 WpHG:

„Lupus alpha Investment S. A., 69 route d'Esch, L-1470 Luxemburg, Luxemburg on March 5, 2007 informed us pursuant to § 21 WpHG para. 1 that its share of voting rights in Silicon Sensor International AG, Berlin/Germany, ISIN: DE0007201907, WKN: 720190 in terms of shares exceeded the threshold of 3 % on Feb. 23, 2007 and now stands at 3.19 % (equivalent to 112,500 voting rights).“

Employees

Average number of staff during 2006 business year:

	2006		2005	
	Employees	*Full-time equivalents*	*Employees*	*Full-time equivalents*
Germany	229	212	128	121
Other countries	6	6	3	3
	235	**218**	**131**	**124**

The group employed a total of 242 (218 Full-time equivalents) on December 31, 2006.

Audit fees

Fees for the final audit of SIS AG, the SIS consolidated financial statement and all major subsidiaries of the SIS group amount to € 67,000.

Waiver of disclosure in accordance with section 264, sub-section 3 HGB

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 14, 2007

The Executive Board
Silicon Sensor International AG

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 statement drawn up by Silicon Sensor International AG, Berlin consisting of the balance sheet, profit and loss statement, cash flow statement, statement of changes in equity and notes, as well as the group annual report which was combined with the company's annual report for the business year from Jan. 1 to Dec. 31, 2006.
Drawing up consolidated financial statements and group annual reports pursuant to IFRS as required in the EU and, in addition, under the provisions of commercial law pursuant to § 315a, par. 1 HGB, is the responsibility of the company's legal representatives. It is our duty to assess the consolidated financial statement and group annual report based on our audit. In addition, we were asked to assess whether the consolidated financial statement conformed to IFRS as a whole.

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.

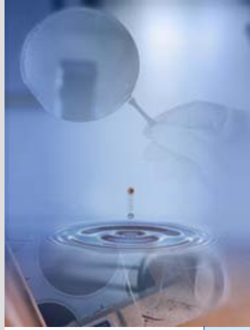
Our audit has not led to any reservations.

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 15, 2007

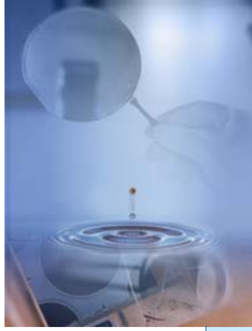
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

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



Internal statement

Officers of the company had no share holdings in the company on Dec. 31, 2006.



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

Except for the recommendations below, Silicon Sensor International AG conforms to the recommendations of the "Government Commission on the German Corporate Governance Code" as amended on June 12, 2006 made known by the Federal Ministry of Justice in the official part of the electronic Federal Gazette and has, since making the last conformance statement in March 2006, complied with the recommendations of the German Corporate Governance Code as amended on June 2, 2005 and May 21, 2003 with the restrictions listed in each case in the annual statements.

Subsections 5.1.2 and 5.4.1 of the Codex recommend an age limit both for Executive and Supervisory Board members. Silicon Sensor International AG does not follow this recommendation and foresees no age restriction for Executive and Supervisory Board members.

Subsection 5.3 of the Codex proposes that the Supervisory Board set up committees. The Supervisory Board of Silicon Sensor International AG will form no committees but meet collectively at all times.

In subsection 5.4.7, the Codex recommends additional profit-related components for the pay of Supervisory Board members. Members of the Supervisory Board of Silicon Sensor International AG presently do not get any profit-related pay. In a resolution dtd. May 30, 2001 the general meeting determined the pay for Supervisory Board members and did not introduce profit-related components.

Progress reports of Silicon Sensor International AG will be published within the relevant time limit according to the rules of the Frankfurt stock exchange, i.e. not necessarily within 45 days from the end of the reporting period (subsection 7.1.2 of the Codex).

Berlin, March 2007

Silicon Sensor International AG

The Executive Board The Supervisory Board

Report of the Supervisory Board

2006 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. It was characterized particularly by the integration of Microelectronic Packaging Dresden GmbH into the group. In addition, efforts focused on business expansion in individual subsidiaries, better cooperation between subsidiaries and the development of U.S. business. Particularly gratifying is the rapid rise of sales to all industries, and the effort made to secure the first big order from automotive manufacturers. With regard to future growth, the Supervisory Board has given the Executive Board its unreserved consent to expansion projects at Dresden and Berlin. In order to extend capacity, work on new clean rooms began at Microelectronic Packaging Dresden GmbH in September 2006. The project will double present production space and is scheduled for completion in early April 2007. In December 2006 a property for building a sensor factory was bought by Silicon Sensor GmbH from the state of Berlin. Construction will start in the 3rd quarter of 2007, completion is planned for the end of 2007.

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. Four joint meetings of the Executive and Supervisory Boards discussed key questions and details of company policy and future strategies for growth and internationalization. In addition, the Executive Board met with individual members of the Supervisory Board on a variety of occasions. There was no change in the composition of the Supervisory Board in 2006.

The Consolidated Financial Statements and Management Report and the Annual Financial Report for the period ending December 31, 2006 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 14, 2007 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 2007. Special thanks to our old and new shareholders who have placed their confidence in our company, and continue to do so.

Berlin, in March 2007

Silicon Sensor International AG
The Supervisory Board

Edgar Most
Chairman