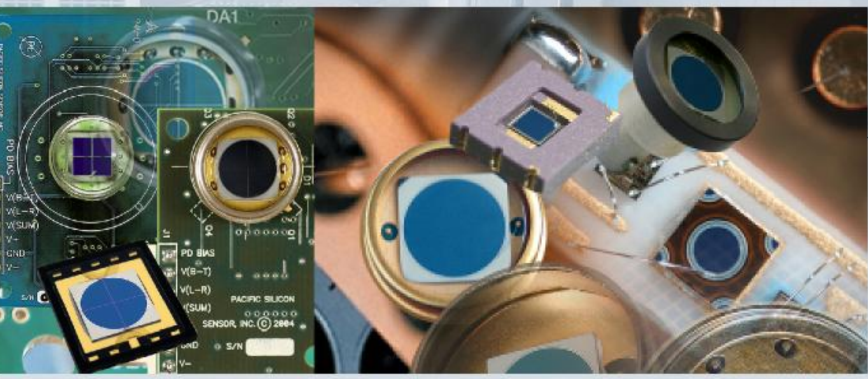

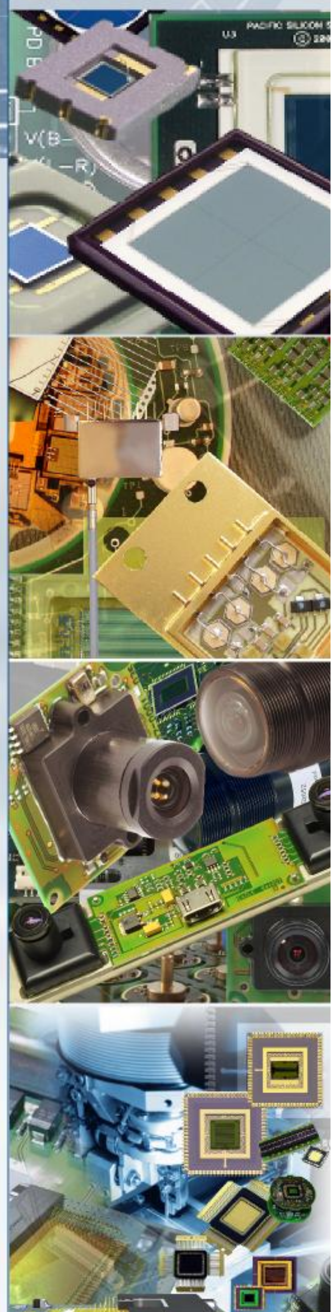

BUSINESS REPORT
for the year 2009

SILICON SENSOR INTERNATIONAL AG

Silicon Sensor International AG

ISIN: DE0007201907

Security no.: 720190

Symbol: SIS

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2009 financial statement for the Silicon Sensor group

Ratios Jan. 1 – Dec. 31, 2009 (2009 financial statement)

	Jan. 1, 2009 – Dec. 31, 2009 € 1,000	*Jan. 1, 2008 – Dec. 31, 2008 € 1,000*	*Change in € 1,000*	*Change in %*
Net sales	**30,207**	38,470	-8,263	-21.5
Back orders	**15,209**	16,000	-791	-4.9
EBITDA	**2,058**	6,729	-4,671	-69.4
EBIT	**-1,114**	-10,947	9,833	89.8
Net loss	**-1,667**	-11,285	9,618	85.2
Net loss €/individual share certificate	**-0.36**	-2.90	2.54	87.6
Av. No. of shares, 1,000	**4,661**	3,896	765	19.6
R & D expenditure	**2,950**	4,679	-1,729	-37.0
Staff (Dec. 31, 2009)	**272**	322	-50	-15.5

Ratios Oct. 1 – Dec. 31, 2009 (Q 4, 2009)

	Oct. 1, 2009 – Dec. 31, 2009 TEuro	*01.10.2008 – 31.12.2008 TEuro*	*Change in in TEuro*	*Change %*
Net sales	**9,302**	8,988	314	3.5
Back orders	**15,209**	16,000	-791	-4.9
EBITDA	**927**	-703	1,630	231.9
EBIT	**385**	-16,186	16,571	102.4
Quarterly surplus	**233**	-14,262	14,495	101.6
Quarterly surplus €/individual share certificate	**0.09**	-3.65	3.74	102.5
Av. No. of shares, 1,000	**5,823**	3,898	1,925	49.4
R & D expenditure	**710**	1,351	-641	-47.0
Staff (Dec. 31, 2009)	**272**	322	-50	-15.5

Introduction

of the Executive Board

Dr. Hans-Georg Giering
CEO

Dr. Ingo Stein
CFO

Silicon Sensor makes strong comeback after the crisis

A message to shareholders and business partners

The year 2009 has been very eventful for the Silicon Sensor group. The general economic downturn which began in mid-2008 created uncertainty among our customers whose sales dropped by up to 60 %. As a result, the group had to delay deliveries, purchases were stopped in some cases and stocks run down which lead to a decrease in sales of the Silicon Sensor Group of 21% to € 15.2 m. Hopes of achieving a positive operative result for the year as a whole nurtured in early 2009 unfortunately did not quite fulfill despite a good fourth quarter. With an EBIT of -€ 1.1m we nevertheless clearly exceeded the expectations expressed in autumn, which was particularly due to a recovery during the second half of the year. After a sales shortfall of 36 % in the first half which led to a restructuring effort, the trading volume rose again in July and every month thereafter. Almost one third of total turnover was reported for Q4 which, thus, traded above the previous year quarter and, more importantly, the quarterly result was positive again.

Signals from customers also suggest that the company has bottomed out at last. For example, the number of steering angle sensors which an automotive company has ordered from our subsidiary MPD in Dresden has been raised from 40,000 to 60,000 units per month and is now part of a five-year skeleton contract. Also in 2009, an automotive customer ordered almost 2 million pressure sensors per year for at least eight car lines, the product cycle being five years from the beginning of 2012. Leaving the a.m. order aside, the back orders of the Silicon Sensor group rose by 16 % to € 15.2 m compared with Q3.

The recession year has been used to stabilize the group and prepare it for future growth. Thus liquid funds worth a total of € 14.6m were injected into the company by two capital increases. Subscribed capital rose to € 33.1m. Overall group equity now stands at € 35.4m, resulting in an equity ratio of 58 % as per Dec. 31, 2009. This *strong equity base is important for customers when choosing service providers as development and production take several years and the financial stability of a partner is a key factor particularly in a downturn. The capital increases also helped stabilize our shareholder structure. DAH Beteiligungsgesellschaft which, after the latest increase, holds 29.9 % of company shares has, in its own words, long-term objectives and will continue to seek further growth. Overall, the share of institutional investors should now be above 50 %.*

The Board shall use funds contributed by shareholders with prudence to achieve further growth. In the meantime, we have recruited more personnel in marketing and development and will make production more efficient by investing in machinery and equipment while extending product ranges by way of selective acquisition. A first step was done by acquiring 100% of the shares of First Sensor Technology GmbH after year end closing date which considerably expands our competence in the fields of MEMS technologies und secures an important source for productions within the Silicon Sensor Group. International expansion has been promoted after the accounting date by cooperation agreements signed with QSI, a Korean manufacturer of laser diodes, and Optrans, a Japanese supplier of customized LEDs and optical sensors based on compound semiconductors.

Our banks, too, have supported company growth by, for instance, granting an investment loan worth € 3.5 m before the end of 2009, bringing our unused credit lines to a total of € 6.3 m.

The merger of all operative units in Berlin to form Silicon Sensor International AG in 2009 turned a financial holding into a strategically oriented industrial undertaking, centralized marketing, R&D and administration and created a strong equity base. This makes streamlining possible in many areas and helps synergize with other subsidiaries.

Unfortunately, drastic personnel cuts had to be made as a result of declining sales. For example, 50 staff had to be laid off in Dresden for operational reasons and the workforce in Berlin had to be put on short hours temporarily. At the same time, periods of low capacity utilization have been used to move equipment and staff to the new manufacturing site in Berlin which is ideal for modern sensor production, and to advance a number of R&D projects. In the medium term, the Silicon Sensor group will market self-developed complete systems and products in selected markets.

Over the next few years, our commitment to seeking growth in such core areas as photosensors, MEMS sensors and camera systems will be resumed, and 2009 has paved the way. Our aim now as before is to become one of Europe's leading manufacturers of high-quality sensors with sales above fr€ 100 m in 2015 at the latest.

Your support for this strategy would be appreciated.

Berlin, March 2010

Silicon Sensor International AG

Dr. Hans-Georg Giering *CEO*	*Dr. Ingo Stein* *CFO*

Annual report

Status report for the group and Silicon Sensor International AG for the 2009 business year

Group business segments

The Silicon Sensor group makes customized optoelectronic sensors (photodetectors) which detect and measure alpha, beta, gamma and X-rays, as well as UV radiation, visible light and near-infrared radiation. The company also develops and manufactures non-optical sensors, highly reliable customized hybrid circuits, and microsystem and advanced packaging products.

Customers include major industrial groups and research establishments who outsource specialist production processes on strategic and production engineering grounds.

The group's products perform basic functions in a wide variety of components and applications, making it largely independent of the business cycle in specific industries. Market conditions for these high-end products and future growth potential are generally seen as favorable. Products and solutions made by Silicon Sensor can be found in countless industrial applications such as electronic yardsticks, motor vehicles, air conditioning systems, blood sugar measuring instruments, X-ray units for baggage inspection, machine control systems, space research, cancer operations, toll systems for trucks, and measuring instruments in the pharmaceuticals industry, to name but a few.

Its high engineering standards make the group one of the world's leading developers and suppliers of optical and electronic high-end solutions for the most exacting requirements. Two top products on a world scale designed and manufactured in the past are avalanche photodiodes (APDs) and avalanche photodiode arrays. Customers use APDs for instance in high-precision distance measuring systems for a variety of applications.

Subsidiaries specialize in product segments, technologies and processes, thus creating an integrated value chain from single chips to complete system solutions:

- Silicon Sensor International AG (SIS) which, since the end of the last business year, has combined all operative units in Berlin, concentrates on the customized development and manufacture of high-quality sensor chips and components, along with complete detector systems and high-performing measuring systems for use in medicine, industry and science.
- Microelectronic Packaging Dresden GmbH (MPD) has specialized in construction technology and packaging integrated circuits for over 30 years and uses electronic parts and sensors to make electronic components, modules and

systems which go into final customer products. Lot sizes range from small batches to mass production, as in the making steering angle sensors for cars.

- Lewicki microelectronic GmbH (LME) is a service provider for construction and packaging technology with the accent on max.-reliability hybrid circuits and microsystem applications, e.g. in space engineering.
- Silicon Micro Sensors GmbH (SMS) is active in the development, production and marketing of sensor-based products such as camera systems for public transport or low-pressure sensor for automotive applications.
- Pacific Silicon Sensor Inc. is focused on marketing Silicon Sensor products and customized packaging in the U.S.

Business development

Macroeconomic trends

During the first half of 2009, the financial crisis led to a steady worsening of the general economic climate which began to improve slowly only in the second half of the business year. This, however, does not signal a return to the normal economic conditions prevailing before the crisis. The current situation is one of continuing uncertainty and the termination of longstanding supply relations. More than in the past, such relations now also depend on the supplier's potential for innovation and economic and financial efficiency. Where a company performs well on the latter two points, it has extra opportunities for further growth. At the same time, customer-supplier ties that used to be based on long-term planning are becoming short-lived. Production is shifting from Europe and the U.S. to Asia and best-cost countries so that prices continue to be under pressure. At the beginning of the current financial year many clients saw slight business improvements, and we expect the customized high-end sensors supplied by SIS to once again perform better than the market as a whole because customers opting for a more innovative approach will be able to meet market demand for higher quality.

Development of the group

Sales drop in the first half year followed by business upturn later and a positive fourth quarter

Group sales last year totalled € 30.2 m, a drop of 21 %. The global economic crisis slashed turnover for our customers and caused great uncertainty regarding future business trends so that deliveries from group subsidiaries were delayed and orders cut. Despite restructuring steps taken by the company at once, the operative result turned out to be negative with EBIT amounting to -€ 1.1 m.

As the year went on, however, turnover increased markedly and results improved. Beginning in July, monthly trading recovered. Whereas sales dropped by 36 % to € 13.1 m during the first half, one third of total turnover was achieved in the fourth quarter alone. The Q4 result was positive as regards both EBIT (€ 0.4 m) and annual surplus (€ 0.2 m). This trend is expected to continue in 2010.

To sum up, this year of crisis has been used to stabilize the Silicon Sensor group and return it to a course of consistent growth.

Capital increases secure equity base and support growth

Three steps undertaken by Silicon Sensor International AG were:

- to increase cash capital by 514,116 individual share certificates at a price of € 4.80 each in March 2009 with issuing proceeds of approx. € 2.5 m,
- to boost share capital by a € 8.8 m increase from corporate funds to € 22.1 m under a resolution adopted by the general meeting on June 9, 2009, raising the nominal value of an individual share certificate from € 3 to € 5, and
- to increase cash capital again in Oct./Nov. 2009 by offering and selling a total of 2.2 m shares for a subscription price of € 5.50 Euro with share capital rising to € 33.1 m and issuing proceeds of € 12.1 m.

The increases greatly strengthened the company's equity base. The consolidated equity ratio as of Dec. 31, 2009 was 58 %, which is particularly important for our customers in choosing service providers as development and production processes extend over years and the financial stability of a business partner is essential in times of crisis. Total liquid funds of the group stood at € 17.1 m as per Dec. 31, 2009.

In addition, the increases will finance planned growth over the next few years. First investments have already been made, and there has been large-scale hiring for marketing and development. More investment is planned, for example into improving the efficiency of production equipment, product development and acquisitions.

Shareholders were not alone in showing confidence by subscribing to capital increases. The banks, too, have rallied behind the company and its growth strategy. Thus another loan worth € 3.5 m for financing capital goods became callable in Dec. 2009. The company has unused credit lines worth a total of € 6.3 m.

Merger of operative units in Berlin streamlines processes

Under a general meeting resolution dtd. June 9, 2009 Silicon Sensor GmbH and Silicon Instruments GmbH merged to form Silicon Sensor International AG, a strategically oriented industrial enterprise. Advantages include a concentration of research, development, marketing, procurement, accounting, financing, controlling etc., along with better coordination and less duplication of work. The overall aim is to streamline processes and to synergize also with other subsidiaries. Finally, the former limited companies also benefit from the much higher share capital of the stock company, an important criterion for customers in choosing service providers.

Restructuring

Following the major drop in sales during the first half year, the company took a number of cost cutting steps. Unfortunately, 50 staff had to be dismissed in Dresden on operational grounds during the 2nd quarter. Related savings were not reflected in results until Q4. In Berlin, too, personnel had to work shorter hours temporarily. Savings were also made with regard to non-personal costs. Restructuring includes the consistent monitoring and optimization of materials consumption and other overhead. On the whole, personnel costs in 2009 dropped by € 2.8 m, other operating expenses by € 1 m.

Advancing development projects

The period of under-utilization in manufacturing was used to press ahead with R & D projects that had considerably grown in number, some of them designed to enable the group to market self-developed complete systems for selected markets in future.

New factory in Berlin has perfect start

In Dec. 2008, Silicon Sensor's production and administrative departments moved to the new manufacturing site at Peter-Behrens-Str. The first sensors completed on the site which meets all modern production requirements stood the final test on March 18, 2009. Equipment was transferred smoothly without any loss of quality.

More growth through cooperation and larger-scale marketing

After the accounting date the company took a number of important steps to promote further growth. Thus the group will in future distribute products made by Quantum Semiconductor International Co., Ltd. (QSI), a leading supplier of laser diodes from Korea, under a cooperation agreement signed in Jan. this year. As a result, Silicon Sensor can now offer customers laser diodes in addition to photodiodes. QSI, in turn, will market the group's products in Asia. The agreement makes important additions to Silicon Sensor's marketing network in China. In the U.S., the group distributes its products through a subsidiary, Pacific Silicon Sensor Inc.

Assets, liabilities and financial position

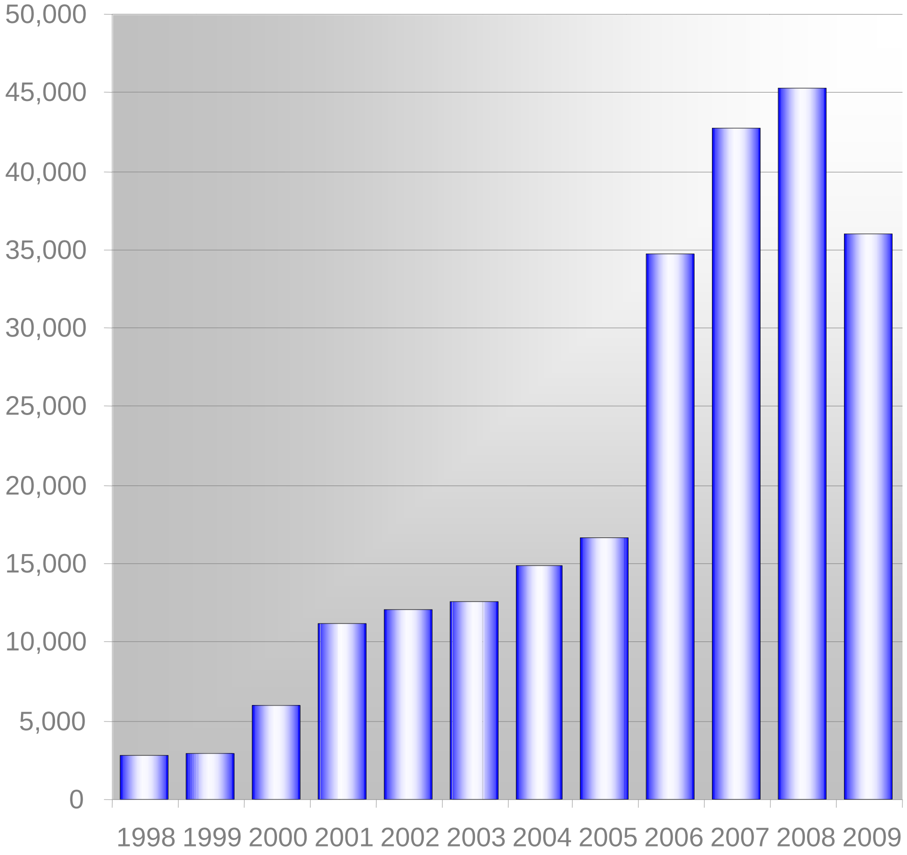
Accounting procedures

Silicon Sensor International AG (hereafter "SIS") has drawn up the consolidated financial statement pursuant to § 315a HGB in keeping with international accounting standards - IFRS (International Financial Reporting Standards).

Profit situation

The tables below show group sales and key profit ratios compared with the previous year.

Total sales of Silicon Sensor group prior to consolidation, € 1,000



SILICON SENSOR INTERNATIONAL AG

Structure of consolidated profit and loss statement

	2009	Aggregate results	2008	Aggregate results
	€1,000	*in %*	*€1,000*	*in %*
Sales	30,207	95 %	38,470	93 %
Aggregate results	**31,679**	100 %	**41,361**	100 %
Cost of materials	-11,461	36 %	- 12,653	31 %
Gross earnings	**20,218**	64 %	**28,708**	69 %
Personnel expenditure	- 11,869	37 %	- 14,711	36 %
Depreciation	- 3,172	10 %	- 17,676	43 %
Other expenditure	- 6,292	20 %	- 7,267	18 %
Operating result	**- 1,114**	n.a.	**- 10,946**	n.a.
Financial and investment result	- 831	- 3 %	- 599	- 1.5 %
Group result before tax	**- 1,945**	n.a.	**- 11,545**	n.a.
Earnings taxes	278	1 %	260	-0.6 %
Outside ownership profits	-56	0 %	1	0 %
Group results	**- 1,611**	n.a.	**- 11,286**	n.a.

Sales dropped 21 % to € 30.2 m, mainly because customers slowed down delivery in view of the general economic crisis which had severely affected their own turnover and caused uncertainty as to further business development. An additional factor in Berlin was that customers waited for a successful startup of production after relocation to the new factory. During the second half of the year, sales recovered considerably and Q4 accounted for almost a third of annual turnover. This amounted to € 9.3 m and exceeded the previous year's performance (€ 9 m).

Other operating income mainly came from investment grants and premiums for equipment and buildings. The rise was due primarily to subsidies granted for the new facilities in Berlin.

Work in progress increased to € 1.3 m in 2008 and dropped to € 0.5 m in 2009. Overall, the group in 2009 reduced capital tie-up for stocks at the rate of € 1.4 m. The material cost quota of 36 % was higher than last year (31 %), mainly due to shifts in turnover shares among operative units of the Silicon Sensor group.

The decline in personnel expenditure to € 11.9 m (from € 14.7 m previously) primarily reflected cuts made during the previous business year.

There was a reduction also in other operating costs as against the year before, by € 1 m to € 6.3 m, with savings particularly in advertising, consulting and space costs.

The resulting EBITDA was € 2.1 m (as against € 6.7 m in 2008).

Depreciation of tangible and intangible assets amounted to € 3.2 m. The level reported for the year before, € 17.7 m, contained special depreciation of company goodwill and other intangible assets in the amount of € 14.6 m.

Despite a recovery in the second half, the operational result before interest and tax was not positive and stood at -€ 1.1 m (previously -€ 10.9 m).

This gives a net loss, after tax and interest, of -€ 1.6 m (previously -€ 11.3 m).

Assets position

The rise in total assets from € 52.8 m to € 61 m came particularly from a € 12.5 m increase in liquid funds to € 17.1 m, mainly from payments due to capital increases in March and November. Accounts receivable (€ 4.9 m) changed little from the year before. Capital tie-up for stocks was reduced by € 1.4 m to € 7.7 m.

Long-term assets (€ 29.3 m) fell only slightly compared with 2008 (€ 29.9 m), goodwill remained at the same level after massive special depreciation in 2008 (€ 1.8 m). The value of tangible assets was reduced as planned by depreciation (€ 26.6 m; previously € 27.3 m).

As regards short-term liabilities, the value of short-term loans rose primarily as a result of regrouping from long-term loans. Liabilities from income tax were completely settled by payment to the Tax Office (€ 1.2 m as per Dec. 31, 2008).

Repayment and regrouping reduced the amount of long-term loans by € 5.5 m to € 7.4 m.

Deferred investment grants were written back as planned and reduced by € 0.4 m to € 5.5 m.

Group equity rose by € 13 m to € 35.4 m, giving an equity ratio of 58 % (previously 42 %). Subscribed capital increased by € 21.4 m to € 33.1 m due to the two cash capital increases and a capital increase from shareholders' funds.

Reserves fell by € 11.3 m to € 3.8 m, particularly as a result of offsetting the annual loss of Silicon Sensor International AG against capital reserves (-€ 4.5 m) and due to the capital increase from shareholders' funds (-€ 8.8 m). This contrasted, among other things, with the premium from the two cash capital increases (€ 2 m).

Financial status

Following is the cash flow statement of the group:

€ 1,000	2009	2008	Change
Operative cash flow	1,078	2,552	-1,474
Cash flow from investment	-86	-13,694	13,608
Cash flow from financing activity	11,496	5,564	5,932
Currency differences	-9	60	-69
Change of liquid funds	12,479	-5,518	17,997
Liquid funds at the beginning of the business year	4,173	9,691	-5,518
Liquid funds at the end of the business year	**16,652**	**4,173**	**12,479**

The operative cash flow of € 1.1 m resulted primarily from the positive result before depreciation.

Investment led to a money outflow of € 0.1 m. Most of the € 2.5 m investment went into making production and development more efficient and taking over equipment from a former service provider of the Silicon Sensor group who ceased trading at the end of 2009 due to the economic downturn. In the current business year, investment will concentrate on improving manufacturing efficiency at the Berlin factory. Investment payouts compared with inpayments from investment grants at almost the same level.

Cash flow from financing activity was € 11.5 m. Repayments of short and long-term loans amounted to € 3.8 m, as against inpayments from two cash capital increases of € 14.6 m and from credit intake worth € 0.8 m.

Liquid funds rose by € 12.5 m and reached € 16.7 m (without current account balance). The group's own funds and the financing guidelines of banks provide an ideal setting in which to resume a strategy of growth.

Summary

While the company's current economic situation is characterized by continuing uncertainty, signs of recovery have emerged in the last few months as reflected in the Q4 result of business year 2009. The group's financial strength and innovative product range augur well for the future.

Earnings and financial status of Silicon Sensor International AG (individual accounts pursuant to HGB)

During business year 2009, Silicon Sensor International AG underwent basic restructuring and merged with two operative units, Silicon Sensor GmbH and Silicon Instruments GmbH, making it a powerful industrial company and streamlining processes in such areas as R&D, marketing, purchasing, accounting, financing and controlling. Two cash capital increases went a long way toward strengthening equity.

With a focus in 2008 (coordination and control of operative companies, building and moving to a new manufacturing site) that differed completely from the one in 2009 (integrated industrial company), there is very little room for comparison with the previous year.

In 2009, Silicon Sensor International AG reported sales of € 7.3 m. Work in progress was reduced by € 0.4 m. Other operating income, mainly from investment grants, amounted to € 0.7 m.

Material costs of € 1.8 m gave an unadjusted margin of € 5.9 m. Personnel costs stood at € 4.2 m, and the number of staff employed in production, R&D and administration was 80 at the end of the year. Depreciation in the amount of € 1.1 m covered equipment, fixtures and fittings and the new building.

Other operating costs of € 6 m included, as an extraordinary financial burden, a merger loss of € 3.2 m. Net interest income was -€ 0.7 m and related particularly to credit taken to finance the new building.

The resulting net loss, € 4.2 m, largely derived from the merger loss and the extra cost of new buildings and reorganization.

Silicon Sensor International AG had € 36.7 m in equity, which is an equity ratio of 69 %. Liquid funds on the accounting date were € 13.6 m. Tangible assets were worth € 19.2 m, making Silicon Sensor International AG a very healthy company when it comes to future development.

Board planning assumes definite increases in annual surplus over the next two calendar years.

Back orders

As per Dec. 31, 2009 these rose by 16 % for the whole group on Q3 2008 and reached € 15.2 m, which is a good base for profits in 2010. There is now a trend for customers to place orders at shorter intervals.

Personnel

Silicon Sensor staff worldwide numbered 272 on Dec. 31, 2009 as against 322 on the same date in 2008. Of these, 8 were employed abroad and 264 in Germany.

The drop was mainly due to lay-offs on operational grounds which became necessary at MPD, a subsidiary in Dresden.

As a newcomer to the Board, Dr. Ingo Stein was appointed Chief Financial Officer by the Supervisory Board effective on Oct. 1, 2009.

Transfer data pursuant to § 289 para. 4 no. 1 HGB and § 315 para. 4 no. 1 HGB

The subscribed capital of € 33.1 m is subdivided into 6.6m individual share certificates, of which 29.9 % is held by DAH Beteiligungs GmbH. Regulations regarding the appointment and withdrawal of Board members and the amendment of the statutes follow legal requirements. Apart from contingent capital for issuing share options in favor of board members and staff, contingent capital for up to 600,000 individual share certificates makes it possible to grant shares to holders of convertible bonds who exercise conversion privileges. The Board is authorized to acquire own at a rate not exceeding 10 % of the capital stock.

Should control change at SIS, it is proposed to pay out the cash value of future earnings from the existing service contract to Dr. Giering. This payment is limited to three annual salaries. Allowance is also made to the higher amount from the previous year's management bonus and the current year bonus. Such payments shall be made if the Supervisory Board cancels the appointment of Dr. Giering within 6 months from a change of control or if Dr. Giering so desires.

Executive pay pursuant to § 289 para. 2 no. 8 HGB and § 315 para. 2 no. 4 HGB

A. The Board

Executive pay is determined by the Supervisory Board, the major criteria being a member's duties and individual performance, and the company's economic status and success as compared with its environment. The Executive and Supervisory Boards of Silicon Sensor International AG have agreed to adjust the service contracts of the two Board members to VorstAG (Executive Pay Adequacy Act) effective on Jan. 1, 2020, regardless of existing contract periods. Silicon Sensor International AG has long made sustainable economic success a yardstick for executive pay, a management principle and a basic value. Applying VorstAG in practice, however, calls for contract amendments. Here a review of executive pay in business year 2009 is followed by revisions which will take effect in 2010.

2009: Apart from a fixed salary, board members were entitled to a variable bonus and benefited from the company's share option program. The executive bonus paid per business year depended on the achievement of specific results as defined in service contracts. Remuneration in kind included a company car and grants toward health (care) insurance. The company also paid toward board members' retirement arrangements. Total fixed salaries of the board in 2009 amounted to € 408,000 (previous year: € 1,406,000). Dr. Kriegel, a former board member, was paid € 38,000 in business year 2009. The amounts in question were outstanding salaries and fullly provided for as per Dec. 31, 2008. Non-profit-related benefits for board memebers included pecuniary advantages from the private use of company cars and payment of the employer's contribution to health (care) insurance. In addition, € 90,000 was paid into contribution-oriented pension plans of board members (previously € 168,000). For a summary of executive pay see chapter 29.

No variable bonuses will be paid to board members for business year 2009, and no member has benefited from company share option plans so far.

2010: After revision as per Jan. 1, 2010, executive pay has included:

- a fixed annual salary,
- a variable bonus and eligibility for a long-term share option plan,
- payment in kind and other benefits, and
- payments toward retirement.

While the fixed annual salary is paid monthly and reviewed at regular intervals, the variable bonus is based on assessment over a number of years.

Its amount is linked to the variation of EBIT and no payment will be made if the company result is negative. In extraordinary circumstances the Supervisory Board may limit bonuses proportionately.

As a long-term incentive, board members are eligible for the company's share option plan. The exercise period for the share option plan adopted at the general meeting on June 9, 2009 is five years after a three-year waiting period.

Payments in kind and other benefits include pecuniary advantages from the private use of company cars by board members, and the employer's contribution to health (care) insurance.

In addition, the company pays into contribution-oriented pension plans of board members.

Compensation payments to members who leave the Board are already limited in service contracts as recommended by the German Corporate Governance Codex.

B. Supervisory Board

Here emoluments pursuant to § 13 of the statutes are determined by the general meeting which, in resolutions dtd. May 29, 2007 and June 18, 2008 specified a fixed amount of € 10,000 (with the chairperson receiving twice and the deputy one and a half times the sum), plus attendance fees of € 1,000 per meeting. In business year 2009, emoluments for Supervisory Board members including attendance fees totaled € 81,000. On June 9, 2009 the general meeting resolved to reduce the number of members from six to three, which will bring down related spending. Members are not eligible for profit-related pay or the company's share option plan.

Supplementary report

No events of particular importance occurred over the period preceding the drawing up of the annual financial statement.

Risk management report

Internal monitoring system

Its domestic and international business exposes Silicon Sensor to a wide variety of inevitable risks. Worldwide activities are monitored and controlled continuously, and the Board has defined the following guidelines for risk management:

- Enhance company value progressively by suitable management procedures and improve return on assets on a continuing basis.

- Use decentralized management to organize the business process in line with generally accepted rules governing internal monitoring systems, with subsidiaries, departments and divisions bearing responsibility for their own business processes while conforming to specific guidelines and targets set by the Board. Act on the basis of internal processes as shown in process standardization documents pursuant to ISO.

- Record, assess, monitor and control business by means of Silicon Sensor's unified strategy, planning and budgeting process which has also been used in 2009 and is supplemented by continuous surveys of markets and competitors, as well as monthly reporting. Related data describes the situation with regard to orders, employment, income and financial status. The planning of subsidiaries is rolled over every month. A major control variable is EBIT. Capital investment on a larger scale and other spending is coordinated with the Board.

- The Board and managing directors of subsidiaries discussed opportunities and risks at quarterly meetings held in 2009 in order to assess and monitor cumulative and individual risks across processes and business units.

- Use the group's unified reporting and monitoring system which provides prompt and factual information for deciders and shows business success and changes in the market environment early and on a permanent basis so that remedial action may be taken. For example, a restructuring program adopted and undertaken during the last business year relied on analysis of current monthly results and subsidiaries' rolling sales forecasts.

Risks of future development

One risk for the Silicon Sensor group in connection with international competition is that personnel required for expansion could not be recruited at all, or only at higher costs than planned. This applies particularly to highly skilled staff.

There is a market risk of customers being reluctant to take delivery or place new orders if the general economic climate continues to worsen.

The risk in R&D is that development projects in the group's individual companies do not give the desired results or innovation trends are not identified in due time.

The expansion planned for the Silicon Sensor group makes it necessary to ensure liquidity at all times. There are cash reserves for unexpected developments. Budgeted liquidity in business year 2010 hinges particularly on cash from capital increases made in 2009 and the company's existing open credit lines worth € 6.3 m.

Developments in worldwide stock markets, and particularly small caps, could cause further undervaluation of the Silicon Sensor share and thus severely restrict the group's future financial margin in terms of equity, or make it a takeover target.

Opportunities

Besides the above theoretical risks, business developments may lead to unforeseen improvements in assets, liabilities and the financial position:

Members of the group are involved in a large number of internal development projects which may sooner or later yield marketable solutions or tap extra market potentials. In future, Silicon Sensor will seek to sell its own complete systems in selected markets.

Cooperation with QSI, the Korean manufacturer of laser diodes, will give the group a better foothold in Asia. Depending on product acceptance in that market, additional sources of revenue may open up.

The 2010 business year will see investments in machinery aimed at making the factory in Berlin (Oberschöneweide) more efficient. Silicon Sensor International AG may then expect economies of scale if the volume of orders grows because a greater workload can be handled with the same workforce.

Accounting-related internal monitoring system

Silicon Sensor AG is a capital market-oriented stock company within the meaning of § 264d HGB so that essential features of its internal monitoring and risk management system need to be described pursuant to § 315 para. 2 no. 5 HGB both as regards the accounting processes of companies involved, and of the group.

There is no legal definition of internal monitoring and risk management regarding the (group) accounting process, which at this juncture is understood to be a comprehensive system as more or less defined by the Düsseldorf *Institut der Wirtschaftsprüfer in Deutschland e.V.* in dealing with accounting-related internal monitoring (IDW PS 261 Tz. 19 f.) and risk management systems (IDW PS 340, Tz. 4). In this definition, an internal monitoring system uses principles, procedures and methods introduced by company management and aimed at applying management decisions taken to make the business process efficient and profitable (including asset protection and the prevention/disclosure of damage to assets), and to ensure proper and reliable internal and external accounting and compliance with relevant legal regulations.

Risk management systems cover the entirety of organizational rules and measures designed to detect risks and handle them in the course of entrepreneurial activities.

The following structures and processes are in place in the group with regard to the accounting processes of the group itself, and companies involved:

The Board is responsible for the internal monitoring and risk management system relating to accounting processes of the group itself, and companies involved. Companies covered by the consolidated financial statement are integrated by well-defined management and reporting structures.

The principles, structure, methods and procedures of the group's internal monitoring and risk management system are described in organizational directives which are updated at regular intervals to suit the latest external and internal developments.

In the accounting processes of companies involved and the group as a whole, elements of the internal monitoring and risk management system are regarded as essential which may substantially affect consolidated financial statements and annual reports, including the following in particular:

- Identification of major risks and monitoring areas relevant to the group's accounting process.
- Checks to monitor the accounting process throughout the group and its results at Board level and in companies covered by the consolidated financial statement.
- Preventive monitoring of the group's financial and accounting structures, companies covered by the consolidated financial statement and of operative,

performance-related processes which produce essential information for drawing up the consolidated financial statement and annual report.

- Measures which ensure the proper computer-assisted processing of facts and data relating to the consolidated financial statement.

Forecast

During the past business year, the company has used the crisis to prepare for systematic growth over the next few years, by streamlining organizational structures, attracting funds to finance growth, practicing cooperation and recruiting staff for marketing and R&D. Assuming that economic recovery sets in, 2010 is expected to bring at least 20 % sales growth and a positive result. Over the next three years, annual organic growth should reach at least 20 %, and net income should clearly exceed 10 % again in 2012 at the latest.

Future-oriented

Planning for the business year to come has made allowance for the uncertainties regarding future business trends, changes in the economic environment and competitive situation, product acceptance, processes and the company image in the market, the company's partial dependence on customers and suppliers, and changes in currency parity as foreseeable today.

Berlin, March 2010

Silicon Sensor International AG

Dr. Hans-Georg Giering	Dr. Ingo Stein
CEO	CFO

The Silicon Sensor share

During the 2009 business year, the share price experienced a limited amount of sidestepping and thus reflected the uncertain economic trends of the previous year. This sidestepping over a long period reduced the average trade volume of Silicon Sensor International AG shares from 35,000/day (2008) to 14,000/day.

After starting at a price of € 5.58, the share ended the business year at € 5.70. The year's low, at a Xetra closing price of € 3.60, came on Jan. 26, 2009. Thereafter the share experienced a gratifying 58 % recovery by the end of the year. Compared with the price development of the TecDax with a rally of almost 60 % after March 2009, the Silicon Sensor share still needs to catch up considerably. The main reason is seen in the fact that its market capitalization has not durably exceeded the €50m threshold, with the regrettable result of making institutional investors less interested in the Silicon Sensor share because many are not allowed to invest in low-capitalization securities. Despite these unfavorable conditions, the Board succeeded in organizing two cash capital increases in business year 2009 which, we believe, will make the share more attractive despite their high dilutive effect. The capital increases have enabled Silicon Sensor International AG to implement its long-term strategy even if the general economic climate should not normalize as quickly as generally expected. In addition, this opens up new opportunities for taking over sensor technology firms who have got into trouble with no fault of their own.

Business year 2009 brought few changes with regard to notifiable shareholdings. These currently include DAH Beteiligungs GmbH attributed to Daniel Hopp with an attributable holding of 29.9 %, and Highclere International Investors Ltd. with 4.97 %, i.e. with holdings of more than 3 % in Silicon Sensor International AG. It is gratifying to see that in a very difficult business year no investor with a notifiable holding has left the shareholder community.

Share ratios (Xetra)

	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Share price (€)	5.70	5.58	16.18	13.75
No. of shares	6,625,889	3,903,150	3,896,150	3,522,900
Net earnings/share (€)	- 0.25	- 2.90	1.15	0.87
P/E ratio	n.a.	n.a.	14	16
Price/sales ratio	1.25	0.57	1.7	1.4
Freefloat	6,625,889	3,903,150	3,896,150	3,140,531

Consolidated financial statement

as of Dec. 31, 2009 and 2008 (IFRS)

ASSETS	Notes	Dec. 31, 2009 € 1,000	Dec. 31, 2008 € 1,000
Assets			
SHORT-TERM ASSETS			
Cash	3	17,102	4,631
Accounts receivable	4	4,868	4,504
Due from affiliated companies		55	22
Inventories	5	7,700	9,136
Tax claims		393	1,070
Prepayments, accrued income and other short-term assets	6	1,553	3,521
Interest hedges	31	0	1
Short-term assets, total		**31,671**	**22,885**
LONG-TERM ASSETS			
Tangible assets	7	26,638	27,319
Intangible assets	8	530	570
Investments	9	124	124
Goodwill	8	1,846	1,846
Deferred tax assets	23	163	21
Other long-term assets		20	20
Long-term assets, total		**29,321**	**29,900**
SUM OF ASSETS		**60,992**	**52,785**

Consolidated financial statement

as of Dec. 31, 2009 and 2008 (IFRS)

Liabilities	*Notes*	***Dec. 31, 2009*** *€ 1,000*	***Dec. 31, 2008*** *€ 1,000*
LIABILITIES AND EQUITY			
SHORT-TERM LIABILITIES			
Short-term loans	*12*	6,112	3,639
Accounts payable		1,904	2,220
Advances from customers		1,222	980
Accrued liabilities	*10*	549	494
Liabilities from income tax		0	1,153
Other short-term liabilities	*11*	2,307	2,701
Short-term liabilities, total		**12,094**	**11,187**
LONG-TERM LIABILITIES			
Long-term interest-bearing loans	*12*	7.385	12,866
Accrued liabilities	*10*	203	106
Deferred taxes	*23*	408	278
Deferred investment grants	*14*	5,525	5,890
Long-term liabilities, total		**13,521**	**19,140**
EQUITY			
Subscribed capital	*15*	33,130	11,710
Reserves	*16*	3,823	15,167
Exchange equalization items		-339	-261
Net earnings		-1,231	-4,208
Equity attributable to SIS AG shareholders		**35,383**	**22,408**
non controlling interests		-6	50
Equity, total		**35,377**	**22,458**
TOTAL LIABILITIES AND EQUITY		**60,992**	**52,785**

Consolidated income statement

for business years ending December 31, 2009 and 2008 (IFRS)

	Annual report *Jan. 1, 2009 – Dec. 31, 2009 € 1,000*	***Annual report*** *Jan. 1, 2008 – Dec. 31, 2008 € 1,000*	*Notes*	***Q4*** *Oct. 01, 2009 – Dec. 31, 2009 € 1,000*	***Q4*** *Oct. 01, 2008 – Dec. 31, 2008 € 1,000*
Net sales	30,207	38,470	*17*	9,302	8,988
Other operating income	1,966	1,546	*18*	857	556
Change in stocks of finished goods and work-in-progress	-526	1,276	*19*	-719	-866
Capitalized cost of self-constructed assets	32	69		32	6
Cost of materials/ purchased services	-11,460	-12,653	*20*	-3,025	-2,388
Personnel expenses	-11,869	-14,711	*21*	-3,175	-4,174
Depreciation of tangible and intangible assets	-3,172	-17,676	*7; 8*	-542	-15,483
Other operating expenses	-6,292	-7,267	*22*	-2,345	-2,825
OPERATING RESULT	**-1,114**	**-10,946**		**385**	**-16,186**
Interest revenue	58	389		13	98
Interest expense	-855	-1,032		-187	-380
Foreign exchange gains	92	231		16	231
Foreign exchange losses	-126	-187		-22	-163
RESULT BEFORE TAX	**-1,945**	**-11,545**		**205**	**-16,400**
Taxes on income	278	260	*23*	28	2,114
PERIOD PROFIT/LOSS	**-1,667**	**-11,285**		**233**	**-14,286**
EXPENSE/INCOME DIRECTLY BOOKED INTO EQUITY					
Differences from currency conversion	-78	74		-30	65
Net profits/losses from cash flow hedges (after tax)	-100	-198		41	-181
Total items booked directly into equity	-178	-124		-11	-116
TOTAL RESULT FOR THE PERIOD	**-1,845**	**-11,409**		**244**	**-14,402**
Surplus/deficit of the period attributable to Silicon Sensor AG shareholders	-1,611	-11,286		289	-14,262
Surplus/deficit of the period attributable to non controlling interests	-56	1		-56	-24
Total result for the period attributable to Silicon Sensor AG shareholders	-1,908	-11,419		208	-14,374
Total result of the period attributable to non controlling interests	-56	1		-56	-24
NET EARNINGS PER SHARE	**-0.36**	**-2.90**	*24*	**0.04**	**-3.66**
No. of shares used to calculate straight net earnings per share (1,000 shares)	4,661	3,896		5,821	3,898
DILUTED EARNINGS PER SHARE	**-0.36**	**-2,90**	*25*	**0.04**	**-3.66**
No. of shares used to calculate diluted net earnings per share (1,000 shares)	4,661	3,896		5,823	3,898

Quarterly data shown in keeping with the rules of Deutsche Börse AG do not form part of the audited financial statement pursuant to IFRS.

Cash flow statement for the group

for business years ending Dec. 31, 2009 and 2008 (IFRS)

	Jan. 1 – Dec. 31, 2009 € 1,000	Jan. 1 – Dec. 31, 2008 € 1,000
Result before tax	-1,945	-11,545
Adjustments for transferring operating result to operating cash flow from current activities:		
Depreciation of intangible and tangible assets	3,172	17,677
Other non cash relevant expenses/revenues	38	-118
Revenue from investment grants	-702	-579
Losses from investment disposal	37	467
Interest expense	855	1,032
Interest revenue	-58	-389
Other profits/losses	0	-44
Increase in accrued liabilities	152	14
Reduction/increase of inventories, accounts receivable and other assets not allocable to investment/financing	928	-725
Reduction/increase of liabilities from accounts payable and other liabilities not allocable to investment/financing	-566	1,923
Interest paid	-853	-1,018
Income tax paid	20	-4,143
CASH FLOW FROM OPERATING ACTIVITIES	**1,078**	**2,552**
Payouts for investments into (in)tangible assets	-2,491	-16,589
Receipts from taking stakes	0	-100
Receipts from investment grants	2,347	2,606
Interest received	58	389
CASH FLOW FROM INVESTMENT	**-86**	**-13,694**
Payments into equity	14,615	25
Payouts for repaying financial loans	-3,820	-1,707
Dividend paid	0	-390
Transaction cost for issuing shares	-119	-13
Receipts from borrowing of funds	820	7,649
CASH FLOW FROM FINANCING	**11,496**	**5,564**
CURRENCY DIFFERENCES FROM CONVERTING FUNDS	**-9**	**60**
CHANGE IN FUNDS AFFECTING PAYMENT (NOTE 25)	**12,479**	**-5,518**
Funds at the beginning of the business year	4,173	9,691
Funds at the end of the business year	**16,652**	**4,173**

Changes in equity

Business years 2009 and 2008 (IFRS)

	No. of shares *in '000*	**Sub-scribed capital** *€ 1,000*	**Share premium** *€ 1,000*	**Earned surplus** *€ 1,000*	**Unreali-zed profit/ loss** *€ 1,000*	**Group balance sheet loss/profit** *€ 1,000*	**Exchange equalization items** *€ 1,000*	**Equity attributable to SIS AG shareholders** *€ 1,000*	**Minority interests** *€ 1,000*	**Total equity** *€ 1,000*
As of Jan. 1, 2008	**3,896**	**11,689**	**16,135**	**-862**	**89**	**7,468**	**-335**	**34,184**	**76**	**34,260**
Period profit/loss						-11,286		-11,286	1	-11,285
Costs/income booked direct into equity					-198		74	-124		-124
Total period result					-198	-11,286	74	-11,410	1	-11,409
Capital increase	7	21	4					25		25
Transaction cost								-9		-9
Share based remuneration				81				81		81
Acquisition of minority interests				-73				-73	-27	-100
Dividend paid						-390		-390		-390
As per Dec. 31, 2008	**3,903**	**11,710**	**16,130**	**-854**	**-109**	**-4,208**	**-261**	**22,408**	**50**	**22,458**

	No. of shares *in '000*	**Sub-scribed capital** *€ 1,000*	**Share premium** *€ 1,000*	**Earned surplus** *€ 1,000*	**Unreali-zed profit/ loss** *€ 1,000*	**Group balance sheet loss/profit** *€ 1,000*	**Exchange equalization items** *€ 1,000*	**Equity attributable to SIS AG shareholders** *€ 1,000*	**Minority interests** *€ 1,000*	**Total equity** *€ 1,000*
As of Jan. 1, 2009	**3,903**	**11,710**	**16,139**	**-863**	**-109**	**-4,208**	**-261**	**22,408**	**50**	**22,458**
Period profit/loss						-1,611		-1,611	-56	-1,667
Costs/income booked direct into equity				-119	-100		-78	-178		-178
Total period result	0	0	0	-119	-100	-1,611	-78	-1,789	-56	-1,845
Capital increase	2,723	12,585	2,030					14,615		14,615
Share capital increase without issue of new shares		8,835	-8,835					0		0
Transaction cost			-119					-119		-119
Share-based remuneration				268				268		268
Use of annual loss			-4.588			4,588		0		0
As per Dec. 31, 2009	**6,626**	**33,130**	**4,618**	**-586**	**-209**	**-1,231**	**-339**	**35,383**	**-6**	**35,377**

Notes to group financial statement

as per Dec. 31, 2009 (IFRS)

1. *General*

Silicon Sensor International AG, Berlin, (hereafter ”SIS” or ”the company” or ”SIS group”) and its subsidiaries are active in the fields of sensor production and microsystem technology, with the accent on developing, manufacturing and marketing customized optical semiconductor sensors and systems. Apart from non-optical sensors, the company also develops and makes highly reliable customized hybrid circuits and products for microsystems and advanced packaging.

A number of subsidiaries in the group are active as independent business units. The group is built around Silicon Sensor AG, the result of a merger of Silicon Sensor GmbH (hereafter SSO) and Silicon Instruments GmbH in business year 2009. Since its foundation in 1991, SSO has concentrated on developing, manufacturing and marketing sensor chips, components and systems. Microelectronic Packaging Dresden GmbH (hereafter ”MPD”) and Lewicki microelectronic GmbH (hereafter ”LME”) are leading contract manufacturers of custom-tailored electronic sensor systems, advanced packaging applications and highly reliable hybrid circuits. Silicon Micro Sensors GmbH (hereafter ”SMS”) develops and markets sensor-based products, mainly pressure sensors and industrial cameras. Pacific Silicon Sensor Inc. (hereafter ”PSS”) is engaged in customized development and optical sensor packaging, its main activity being to market sensor chips and a wide variety of sensor systems in the North American market.

During busness year 2009, the average workforce was reduced from 318 to 296. SIS headquarters are located at Peter-Behrens-Str. 15 in Berlin (Germany).

2. *Financial reporting and valuation techniques*

Basis of drawing up financial statement

This is the principle of initial cost, with the exception of financial derivatives and securities available for sale which were assessed at attributable current values. The financial statement was drawn up in €, with amounts given in €1,000 unless indicated otherwise.

Statement of compliance with IFRS

The annual financial statement of the SIS group is drawn up in keeping with International Financial Reporting Standards (IFRS) as applicable in the EU, and as required by § 315a HGB.

Changes in financial reporting and valuation techniques

These techniques are basically the same as used for the previous year.

The use of new revised standards and interpretations has not affected the SIS group's assets, liabilities and financial position but led to some additional data being given in the notes.

At the same time, the group has already applied the following standards to business year 2009 which would have been required only for the following year.

IFRS 3 Mergers

This standard published in January 2008 first applied to periods under review beginning on or after July 1, 2009 and was thoroughly revised under the convergence project of IASB and FASB. Major innovations include the introduction of a right of opting between the use of pro-rata identifiable net assets (known as the *Purchased Goodwill* method), or what is known as the *Full Goodwill* method showing the entire goodwill attributable also to minority shareholders, when assessing minority interests. In this connection, mention should also be made of the re-evaluation of existing stakes when first obtaining control as affecting net income (multistage acquisition of companies), mandatory regard at the time of acquisition for executory consideration contingent on future events, and the treatmen of transaction costs as affecting net income. Transitional provisions foresee the prospective application of the new rules so that there are no changes regarding assets and liabilities resulting from company mergers prior to the first use of the new standard.

IAS 27R Consolidated and separate individual accounts pursuant to IFRS

The revised standard published in January 2008 first applied to periods under review beginning on or after July 1, 2009. It changes the balance sheet treatment of company mergers taking place thereafter which will affect estimated business values or goodwill, the results of the period under review during which a company was acquired, and future results. IAS 27R provides for changes of stakes in a subsidiary (without loss of control) to be reported as an equity transaction, resulting neither in a business value or goodwill nor in a profit or loss.

Other changes relate to regulations dealing with the allocation of losses to parent companies and shares without dominating influence, and financial reporting standards for transactions which lead to a loss of control. This caused changes in IAS 7 cash flow, IAS 12 income tax, IAS 21 effects of changes in rates of exchange, IAS 28 investments in affiliated companies, and IAS 31 investments in joint ventures. Revisions in IFRS 3R and IAS 27R will affect future acquisitions, losses of control and transactions involving minority interests. Early use was admissible, and the company chose application ahead of schedule. This led to a change regarding the valuation of minority interests as per Dec. 31, 2009 because negative minority interests could not be shown in the past.

In addition, the following statements to be made from Jan. 1, 2009 onwards will greatly change the presentation of the consolidated final accounts:

IAS 1 Presentation of financial statement (revised)

The revised standard published in September 2007 first applied to business years beginning on or after Jan 1, 2009 and called for separate presentations of equity changes resulting from transactions with shareholders seen as equity suppliers, and other changes in equity. Accounts of equity changes cover all details of transactions with shareholders, whereas all other equity changes are shown in a single line. The standard also requires that the overall period result be shown with all available constituents either as one entity or as two connected entities. The group has chosen the former type of presentation.

IFRS 8 Operative segments

The standard published in Nov. 2006 first applied to business years beginning on or after Jan. 1, 2009. It supersedes IAS 14 “Segment reporting” and adjusts IASB standards to the requirements of Statement of Financial Accounting Standards (SFAS) 131. IFRS 8 requires financial and descriptive information on what are called ”reportable segments”, i.e. operative segments or summaries thereof which meet specific criteria. Operative segments are corporate entities yielding financial information which is regularly checked by the executive in charge in order to control the allocation of resources and assess the entity’s performance. In this connection, financial information has to be shown in the accounts based on the internal control procedure used to assess operative segments (management approach). The standard applies to business years beginning on or after Jan. 1, 2009.

Published standards which are not yet mandatory

The following accounting statement published by IASB is not yet mandatory and not been used by SIS so far.

”IFRS 9: Financial instruments” (not yet adopted as EU law)

This first standard for the classification and assessment of financial instruments was published on Nov. 12, 2009 and is designed to simplify existing classification rules. For this purpose it envisages only two categories for classifying financial assets - assessment at ongoing initial and production costs, and assessment at current value. It does away with the categories specified in IAS 39 – loans and receivables, financial investments to be held until final maturity, and financial assets available for sale.

A financial asset will be assessed in terms of ongoing initial and production costs particularly if the aim of trading is to achieve contractual payments by holding financial assets. Financial assets which do not meet this or some other criterion will be assessed at current value. The standard is mandatory for business years beginning on or after Jan. 1, 2013 and may be used earlier after EU endorsement.

IASB has published several other statements. The statements on accounting introduced recently, and those not implemented as yet, have no major effect on the annual financial statement of the SIS group.

Major discretionary decisions and uncertain estimates

In drawing up the consolidated financial statement, assumptions have been made, and estimates used, which in part have affected the amount and reporting of assets, liabilities, profits and expenses shown in the balance sheet. In individual cases, actual values may later vary from these assumptions and estimates. Once better information has become availabe, related changes would be made.

Loss of value of goodwill and long-term assets (shown in notes under 8)

The Silicon Sensor group annually checks the value of goodwill and other long-term assets on the basis of IAS 36 in terms of future cash surplus as earned by individual assets or groups of assets combined into cash-generating entities. The group's essential long-term assets whose values are checked annually include goodwill as shown, and intangible assets obtained through company mergers.

Share-based remuneration (shown in notes under 13)

This has been granted by Silicon Sensor to staff and officers. The assessment of related personnel expenditure contains estimates regarding compliance with the conditions governing these options, and market parameters.

Accrued liability for disadvantageous contracts (shown in notes under 10)

The SIS balance sheet as per Dec. 31, 2009 shows reserves for excess obligations from the lease of the company's former headquarters in the amount of €143,000, based on assumptions regarding possible subletting income.

Consolidation policy

Company mergers and business value/goodwill
Company mergers after Jan. 1, 2009

Mergers are shown in the balance sheet based on the purchase method. The intitial costs of an acquisition are proportionate to the sum of the consideration transferred, assessed in terms of the attributable current value at the time of acquisition and the shares without a dominating influence in the company acquired. In every merger the buyer values the shares without a dominating influence in the company acquired either at the attributable current value or the corresponding proportion of its identifiable net assets. Merger costs are shown as expenditure. If the group acquires a company, it assesses suitable classification and how to designate financial assets and liabilities in keeping with contract terms, economic circumstances and conditions prevailing at the time of purchase. This includes separating the derivatives embedded in basic contracts.

In multistage mergers the buyer's equity ratio previously held in the company acquired is reassessed at the current value attributable at the time of acquisition and the resulting profit or loss and shown as affecting the current result. The agreed conditional consideration is shown at the attributable current value for the acquisition date. In keeping with IAS 39, subsequent changes in the attributable current value of a conditional consideration which represents an asset or a liability are either shown in the profit and loss statement or in other results. A conditional consideration classified as equity is not revalued and its later settlement shown under equity in the balance sheet.

When first shown, the business value/goodwill is valued at initial cost, proportionate to the surplus of the consideration over the acquired identifiable assets and debts assumed by the group. If the consideration is less than the attributable current value of the net assets of the subsidiary acquired, the difference is shown in the profit and loss statement.

After being shown for the first time, the business value/goodwill is valued at initial costs less cumulated depreciation expenses. To test depreciation, the business value/goodwill from the date of acquisition as generated by the merger is assigned to money-generating units of the group which are expected to profit from the merger. This applies whether or not other assets or liabilities of the company purchased are assigned to these units.

If a business value/goodwill has been assigned to a money-generating unit and a division of this unit is sold, allowance is made for the business value/goodwill of the division sold as part of the division's book value in determining the result of the sale. The value of the sold part of the business value/goodwill is determined based on the relative values of the division sold and the remaining part of the money-generating unit.

Company mergers and business value/goodwill
Company mergers before Dec. 31, 2008

Under the method used earlier for showing company acquisitions in the balance sheet, the following divergent principles applied in comparison with the a.m. requirements:

Transaction costs directly attributable to company acquisition were part of initial costs. Interests without a controlling influence (formerly known as minority interests) were valued as the corresponding proportion of the identifiable net assets of the company acquired.

In multistage mergers, individual purchasing transactions had to be shown separately. Interests acquired in addition did not affect the business value/goodwill from a previous purchasing transaction.

If the group acquired a company, embedded derivatives which the acquired company had shown in the balance as separate from the basic contract were only revalued at the time of purchase if the merger changed the terms of the contract so as to considerably modify the payments which otherwise would have resulted from the contract.

A conditional consideration was only shown if the group had a current obligation, a draining of economically useful resources was expected rather than an influx, and a dependable estimate was possible. Subsequent adjustments of a conditional consideration had an effect on the business value/goodwill.

Subsidiaries

The consilidated financial statement lists SIS and the companies it controls with the group directly or indirectly holding over 50 % of the voting rights for the subscribed capital of a company and/or capable of controlling the company's financial and business policies in such a way as to benefit from its activity. As per Dec. 31, 2009 the minority interests correspond to that part of the period result and net assets of Silicon Micro Sensors GmbH ("SMS") which are apportionable to interests not held by the group. Minority interests are shown separately in the consolidated financial statement in the profit and loss statement and as part of equity, aparat from equity apportionable to parent company shareholders. Purchases of minority interests are shown using what is known as the Equity Concept Method where the difference between the purchase price and the book value of the pro-rata net assets acquired is shown in reserves as not affecting the operating result.

The purchase method has been used for the acquisition of companies, and those acquired in the past have been included in the consolidated financial statement from the purchasing date.

The following companies have been shown in the accounts as fully consolidated subsidiaries (SIS interests coincide with existing voting rights).

Company	HQ	Main activity	Interests
Lewicki microelectronic GmbH	Ober-dischingen	Manufacture/marketing of microelectronic components/assemblies	100 %
Microelectronic Packaging Dresden GmbH	Dresden	Manufacture/marketing of microelectronic components/assemblies	100 %
Pacific Silicon Sensor, Inc.	Westlake Village, USA	Development/manufacture/marketing of sensor systems, marketing of sensor chips	100 %
Silicon Micro Sensors GmbH	Dresden	Development/manufacture/marketing of microelectronic and mechanical sensor systems, components, modules and microsystems	85 %
Silicon Projects GmbH	Berlin	Hard/software development, production and marketing, Internet services	100 %

In business year 2009 the former subsidiaries Silicon Sensor GmbH and Silicon Instruments GmbH merged with SIS.

Company acquisitions

In business year 2008 SIS acquired minority interests in Silicon Instruments GmbH.

Consolidation measures and uniform group assessment

The annual financial statements of subsidiaries included in the consolidated statement and of affiliated companies are based on uniform accounting standards, periods under review and reporting dates.

Internal group balances, transactions, resulting internal group profits and non-realized profits and losses between consolidated companies have been completely eliminated.

Foreign currencies

The reporting currency of the Silicon Sensor group, Euro, is the parent company's functional currency.

Each company in the group defines its own functional currency, and items in its annual statement are valued in terms of this currency. Foreign currency transactions are first converted to the functional currency at the spot rate prevailing on the transaction day. Monetary assets and liabilities in foreign currencies are converted to the functional currency on each closing date using the rate on that date. All currency differences are shown as affecting the current result. Non-monetary items formerly valued at historic initial/manufacturing costs in a foreign currency are converted at the rate prevailing on the transaction date. Non-monetary items valued at the attributable current value in a foreign currency are converted at the rate applying at the time of determining the attributable current value.

Foreign subsidiaries

Where these are consolidated in SIS, they are regarded as financially, economically and organizationally independent, with functional currencies that are identical to the national currency. Their balance sheets are converted on the closing date (0.69 EUR/USD a/o Dec. 31st 2009). Profit and loss statements are converted at the average exchange rate (0.72 a/o Dec. 31st 2009), with resulting differences shown as a a separate constituent of equity.

Liquid funds, cash and cash equivalents

Liquid funds include cash, time deposits and call deposits.

Their amount is defined to suit the company's disposition and, apart from liquid funds, includes short-term current account liabilities with banks.

Financial assets

These are basically grouped into the following categories:

- loans and receivables extended by the company, and
- derivatives which meet hedge accounting requirements.

A financial asset is first shown at initial costs corresponding to the current value of the consideration, with transaction costs included. Financial assets from normal purchases and sales are shown on the trading day.

Credits and receivables are non-derivative financial assets with fixed or determinable payment which are not quoted in an active market. After being shown for the first time, they are valued at ongoing initial costs using the effective interest method less adjustment for loss of value. Ongoing initial costs are calculated at the time of purchase making allowance for all disagios and agios and include all fees which are an integral part of the real interest rate and transaction costs. Profits and losses are shown in the period result if credits and receivables are retired or have lost value, or as part of amortization.

Financial assets are checked for loss of value on each accounting date. Where it is probable that the company, in the case of financial assets shown at ongoing initial costs, will be unable to collect all loans and receivables due under the contract, value loss or adjustment on receivables will be shown as affecting net income. A loss of value previously reported as expenditure will be corrected as affecting net income if a subsequent partial recovery (or reduced loss of value) may objectively attributed to circumstances arising after the original loss of value. However, an increase in value will only be reported to the extent that it does not exceed the amount of ongoing initial costs that would have resulted without a loss of value.

Financial assets or parts thereof will be retired if the Silicon Sensor group loses control over the contractual rights which make up the asset.

The accounting of derivatives which meet the conditions of hedge accounting, is described in section “Interest Rate Risks and Heding”.

(a) Balancing

Financial assets and liabilities will be balanced to show merely the net amount in the balance sheet if there is a current legal right to offset the amounts shown against each other with the intention of balancing taking place on a net basis or discharging the related liability at the time of realizing the asset in question.

(b) Attributable current value

This is determined for financial instruments traded in active markets using the market price on the reporting date or the publicly listed price (bid quotation offered by buyer in long position and ask quotation in short position) without deducting transaction costs.

The attributable current value of financial instruments not traded in an active market is determined with suitable assessment methods including recent transactions between competent, contract seeking and independent business partners, comparison with the presently attributable current value of another financial instrument that is basically identical, the use of discounted cash flow methods and other valuation models.

For an analysis of attributable current values of financial instruments and details of their valuation see 30 under notes.

Inventories

Raw materials and consumables intended for producing inventories will not be devalued to less than their initial or production costs if the finished products for which they are inputs can be expected to sell at or above production costs. Selling costs incurred should also be taken into consideration. If, however, a price drop for these materials indicates that the production costs of finished products will be higher than the net selling value, the materials will be devalued to that level.

Work in progress and finished products are valued at production costs or a lower market value. Production costs include direct personnel expenses, material costs and the attributable proportion of production overhead. Interest on borrowed capital is not capitalized. The value of obsolete and low-volume articles will be adequately adjusted.

Tangible assets

These are shown at initial/production costs less cumulated depreciation.

Interest on borrowed capital is capitalized if it can be directly attributed to the purchase, construction or production of a specific asset. If tangible assets are disposed of, historic initial costs and cumulated depreciation will be written off and profits or losses from the disposal reported as affecting the current result.

Depreciation as planned extends over the following periods of useful life using the linear method.

Buildings	25 – 33 yrs.
Technical systems, machinery	5 – 15 yrs.
Equipment, fixtures and fittings	5 – 14 yrs.

Useful lives and depreciation methods are checked regularly for compatibility of economic benefit and depreciation periods.

Assets under construction are capitalized at initial/production costs and written down after completion and commissioning. Production costs are full manufacture-related costs including prime costs and overheads resulting from the work done by own staff in the erection of facilities.

Intangible assets

These are capitalized by the SIS group if

(a) the asset is the company's equitable property due to past events,

(b) the company may expect an economic benefit from the asset in future, and

(c) asset costs can be reliably measured.

This approach is used if an intangible asset is acquired externally. Internally created intangible assets will be rated at directly attributable development costs incurred if all requirements of IAS 38.57 are met. Overheads necessarily incurred in asset production and directly attributable to the asset will also be capitalized. Cost capitalization ends when the product has been completed and generally made available for use. IAS 38.57 makes the following six requirements for capitalizing development costs, all of which have been met in the cases under review here:

1. Technical feasibility of completing the asset so that it may be used internally and/or sold.
2. An intention to complete the intangible asset for use or sale.
3. An ability to use or sell the intangible asset.

4. Proof of an expected economic benefit in future.
5. The availability of sufficient technical, financial and other resources to finish development and use or sell the intangible asset.
6. The company's ability to reliably assess the expense attributable to the asset in the course of development.

Acquired development projects (manufacturing know-how) were also included under intangible assets provided they could be reliably valued and there was control over the utilization of their results.

Depreciable intangible assets are shown at initial costs less cumulated depreciation and cumulated loss of value. Non-depreciable intangible assets (goodwill) are shown at initial costs less cumulated expense for loss of value. Pursuant to IAS 38, depreciable intangible assets are written off uniformly over their estimated useful life, starting at the time they are available for use. Depreciation periods/plans are reviewed at the end of each business year.

(a) Software

If new this is capitalized at initial costs and shown as an intangible asset unless these costs are an integral part of the related hardware. Software is written off over three or four years using the linear method.

(b) Goodwill

This is the surplus of the initial cost of buying shares in a company over the proportion of attributable current values of the related assets bought by the acquiring company on the day of transaction, less debts and contingent debts. It is shown in the balance sheet as an asset. Each year the achievable amount is determined for the money-generating entity to which goodwill belongs, regardless of whether a loss of value is suspected or not. If the book value is above the achievable amount, value is adjusted.

(c) R&D costs

These are shown as affecting the current result for the period in which they have been incurred. In the absence of necessary conditions, no development costs were capitalized in 2009 or 2008. R&D costs reported as expenditure amounted to € 2,950,000 in 2009 and € 4,679,000 in 2008.

(d) Development

Through a company acquisition, the SIS group has purchased development assets which will be written down over 20 years as planned, effective from the time the asset is marketed. Unscheduled depreciation of the asset in business year 2008 left only a minor residual book value.

(e) Loss of value of long-term assets

Tangible and intangible assets are checked for possible loss of value if, after specific events or changes of external circumstances, it may be suspected that the value achievable for the asset on the closing date will be permanently under its book value or an yearly check for loss of value is required (as yet unused goodwill and intangible assets). If the book value of an asset exceeds the lower attributable value, a loss of value is reported for tangible and intangible assets shown at initial/production costs. The achievable value is the higher amount from the attributable current value less selling costs and value in use. The attributable current value less selling costs corresponds to the amount achievable by selling the asset in a a normal transaction between competent parties. The value in use is the cash value of the estimated future cash flows expected from the long-term use of an asset and its sale at the end of its useful life. The achievable amount is to be estimated for each individual asset or, where this is impossible, for the smallest identifiable cash-generating entity.

Accrued liabilities

These are shown pursuant to IAS 37 for obligations whose due dates or amounts are uncertain, and may be reported only if

(a) a current obligation (legal or factual) has accrued to the company from a past event,

(b) it is probable (with more speaking in favor than against) that a drain of economically beneficial resources will be required to meet the obligation, and

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

The provision amount is the best possible estimate of the outlay required to meet the obligation on the accounting date, which is the amount the company would have to pay on that date from a realistic perspective to meet the obligation or assign it to a third party. Long-term provisions are discounted at an interest rate before tax if the resulting effect is essential. In the event of a discount, the higher provision caused by the passage of time is shown as financial expenditure.

Liabilities from a possible obligation due to a past event whose existence depends on the (non)occurrence of one or more uncertain future developments which are not under the company's complete control are shown in the notes as contingent debts. Such debts may also arise from a current obligation which has resulted from past events but was not reported because

(a) a drain of economically beneficial resources is unlikely when the obligation is met, or

(b) the amount of the obligation can not be reliably estimated.

No contingent liability will be shown if a drain of economically beneficial resources is not very likely for the company.

Financial liabilities

These are shown in the following categories:

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

The financial obligations reported in the consolidated annual statement for SIS have been classified as other obligations.

When a financial obligation is first reported, it will be shown at initial costs corresponding to the current value of the consideration, with transaction costs included.

It is no longer reported after settlement, i.e. when the contractual obligation has been repaid or suspended, or has expired.

Employee benefits

Contribution-oriented plans

These exist for Board members, managing directors and senior staff in the form of commitments given by an inter-company pension fund which receives defined monthly contributions from the company. These are apportioned as affecting net income in the same year. The same applies to expenditure for state pension schemes.

Share options

The group provides share-based remuneration for staff (and executives) in the form of equity instruments (”transaction with settlement by equity instruments”).

Related costs of instruments granted after Nov. 7, 2002 are determined at the attributable current value on the date they are granted. The attributable current value is determined with a suitable option price model (for details see 13 under notes).

Expenses for granting the equity instruments and the corresponding equity increase are reported for the period in which the exercise/payment conditions have to be met (known as the qualifying period), which ends on the date when exercise is possible for the first time, i.e. the employee in question has an irrevocable entitlement. The cumulated expense for granting the equity instruments shown on each accounting date until exercise is possible for the first time reflects the expired part of the qualifying period and the number of equity instruments actually becoming exercisable at the end of that period as best estimated by the group. The amount debited/credited to the profit and loss statement reflects the development of the cumulated expense shown at the beginning and end of the reporting period.

No expense is shown for remuneration entitlements which do not become exercisable, with the exception of entitlements requiring specific market conditions for exercise. These are considered exercisable regardless of whether the market conditions have been met, provided all other conditions for granting the benefit are in place.

The diluting effect of outstanding share options is shown in terms of additional dilution when calculating net earnings per share (for details see 24 under notes).

Partial retirement

Obligations from partial retirement contracts have been calculated in terms of insurance mathematics and provided for as expenditure.

Public grants

These are shown if the company can be sufficiently sure of receiving them and meets related conditions. Expense-associated grants are shown as planned over the period required to offset them against the expense they are meant to compensate. Grants toward an asset are shown in the group's balance sheet on the liability side as items of accrual and deferral. Such items are liquidated in equal annual installments as affecting the current result over the expected useful life of the asset in question.

Revenue recognition and accounting for earnings

Sales of goods and products

Sales are realized in keeping with IAS 18 if the following cumulative requirements have been met:

(a) The SIS group has transferred to the buyer the major risks and opportunities relating to ownership of goods and products sold.

(b) The SIS group retains neither an ongoing right of disposal as is normally characteristic of beneficial ownership nor effective control of the items/rights sold.

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

(d) It is a sufficient probability that the company will reap the economic benefit from the sale.

(e) Costs incurred/expected in connection with the sale can be reliably determined.

In keeping with the principle of deferred items described in IAS 18, revenue and expense relating to the same transaction or event are reported simultaneously.

Interest earnings

Interest is shown proportional to time making allowance for the effective yield of the asset.

Dividends

Revenue is reported as the legal title to payment arises.

Tax

Actual tax refund claims and tax due for the current period and past periods will be assigned the amount expected to be refunded/collected by tax authorities, with the calculation of the amount based on tax rates/laws applicable on the accounting date. Actual taxes relating to items directly shown as equity will not be reported in the profit and loss statement but as equity.

Deferred tax is shown by applying the asset and liability method to all temporary differences existing on the accounting date between the value of an asset/liability in the balance sheet and tax valuation. Deferred taxes are shown for all taxable temporary differences, with these exceptions:

- Deferred taxes from the first statement of a business value/goodwill, asset or debt in a business transaction which is not a company merger and, at the time of the transaction, affects neither the period result in terms of commercial law nor the taxable result, may not be shown.

- Deferred taxes from taxable temporary differences related to interests in subsidiaries and affiliated companies may not be reported if the time sequence of reversing the temporary differences may be controlled and it is not likely that the temporary differences will reverse in the foreseeable future.

Deferred tax claims will be shown for all deductible temporary differences, unused tax losses carried forward, and unused tax credits to the extent that there is a likelihood of taxable income being available against which the deductible temporary differences, unused tax losses carried forward and unused tax credits may be offset, with these exceptions:

- Deferred taxes from taxable temporary differences resulting from the first reporting of an asset or liability in a business transaction which is not a company merger and, at the time of the transaction, affects neither the period result in terms of commercial law nor the taxable result may not be shown..

- Deferred taxes from deductible temporary differences related to interests in subsidiaries, affiliated companies and joint ventures will only be reported to the extent that that there is a likelihood of the temporary differences reversing in the foreseeable future and of a sufficient taxable result being available agaginst which the temporary differences may be offset.

The book value of deferred tax claims will be checked on each accounting date and written off to the extent that it is no longer likely for a sufficient taxable result being available against which at least part of the deferred tax claim can be offset. Deferred tax claims not shown will checked on each accounting date and reported to the extent that there is the likelihood of a future taxable result making it possible to realize the deferred tax claim.

Deferred tax claims and tax due will be assessed using the tax rates expected to apply to the period in which an asset is realized or a liability covered, based on tax rates (and laws) applicable on the accounting date. Allowance is to be made for future changes in tax rates on the accounting date if material conditions exist for validity within the framework of a legislative process. Deferred taxes relating to items which are directly shown as part of equity will be reported there and not in the profit and loss statement.

Deferred tax claims and tax due will be offset against each other if there is an enforceable claim for offsetting actual tax claims against actual tax due which relates to income tax from the same taxpayer charged by the same tax office.

Sales tax

Net sales, expenses and assets are shown after deducting sales tax, except in the following cases:

- If sales tax applicable to the purchase of assets or services can not be claimed by the tax office, it will be shown as part of asset production costs or expenses.

- Receivables and debts will be reported with the amount of sales tax included.

Sales tax refunded or collected by the tax office will be shown in the group accounts under receivables/liabilities.

Leasing

Whether an agreement is or contains a lease is determined on the basis of its economic content and requires an assessment as to whether the completion of the agreement calls for the use of (a) certain asset(s) and grants a right to use the asset.

Financing leases where basically all opportunities and risks related to ownership of the leased item are assigned to the group lead to its capitalization at the time of signing the lease. The item is then shown at its attributable current value, or at the cash value of minimum lease payments if these are lower. Lease payments are split into financial expenses and the redemption part of the residual debt so as to give a constant interest rate on the residual leasing debt over the term of the lease. Financial expenses are reported immediately as affecting net result.

If the transfer of ownership to the group at the end of the leasing term is not sufficiently certain, the capitalized leased items will be written off over the shorter of the two periods resulting from the expected useful life or leasing term.
Leasing payments for operating leases are reported as expenditure in the profit and loss statement using the linear method over the term of the lease.

Risk management, derivatives, security

Default/liquidity risk

The group seeks to ensure sufficient funds and irrevocable credit lines for meeting its financial obligation in the next few years. Available credit lines are worth € 6,710,000 (2008: € 6,003,000), of these € 400,000 as a money market loan which expires in April 2010. Also available to the company is contingent capital worth € 5,193,000, of this € 3,000,000 for issuing convertible bonds. There will be no approved capital on the accounting date (2008: € 4,228,000).

Default risks and/or the risk of a contractual party not meeting its payment obligations are controlled by way of loan commitments, credit lines and monitoring procedures. Where reasonable, the company obtains safeguards in the form of rights to securities or enters into master compensation agreements. The max. default risk corresponds to the amounts of financial items capitalized in the balance sheet.

Currency risk

This is negligible because the business of companies in the group is mainly in € so that no major safeguarding was necessary. Foreign currency risks are limited by the independent operations undertaken by PSS.

Interest rate risks and hedging

The risk of fluctuating going rates to which the group is exposed results primarily from long-term financial liabilities with variable interest rates. It is countered by taking fixed rate loans or, in the case of variable loans, by negotiating derivative financial instruments (interest swaps). These are assessed at the attributable current value at the time of contract conclusion and during periods thereafter and shown as assets if the attributable current value is positive, and as liabilities if the value is negative.

Profits or losses resulting from changes in the attributable current value of derivative financial instruments which do not meet the criteria for being reported as security in the balance sheet will be shown as affecting the current result at once. The attributable current value of interest swap contracts is determined with reference to the market values of similar instruments.

As per Dec. 31, 2009 and 2008, SIS merely used safeguards for cash flows which were shown in the balance sheets observing the strict criteria for such safeguards as follows:

The effective part of profits or losses from a safeguard is shown directly in equity, the non-effective part is shown at once as affecting the current result. Amounts reported as equity are rebooked during the period to the profit and loss statement where the safeguarded transaction affects the period result, for instance if hedged financial results and/or expenses are shown or an expected sale takes place. If a hedge results in reporting a non-financial asset or liability, the amounts which are part of equity become part of the initial costs at the time of contributing the non-financial asset and/or the non-financial liability.

If the proposed transaction or fixed pledge is no longer expected, amounts which were earlier included under equity will be rebooked to the profit and loss statement. When the hedge expires or is sold without a replacement or the safeguard is not rolled over into some other hedge, the amounts earlier included under equity will remain there as separate items until the proposed transaction or fixed pledge has materialized. The same applies if the hedge is found to no longer meet the criteria for being shown in the balance sheet as a safeguard.

Segments

The SIS group is controlled via individual legal units, the basic criterion being the result before taxes and interest in terms of the German commercial code. Results for SIS and its subsidiaries are determined per month, processed and analyzed by the SIS board. Company assets and liabilities are not reported regularly. Reporting results are made available to the Supervisory Board before meetings take place.

For the purpose of segment reporting as per IFRS 8 the companies of the SIS group have been identified as independent segments which were combined into a business segment required to report, particularly because they make comparable goods, provide comparable services, use comparable production methods and have similar customers. As regards transactions between the companies (segments), the resulting revenues, expenses and results are based on transfers between them which are shown in the balance sheet at general market prices as charged to non-affiliated customers for similar services. These transfers have been eliminated at the time of consolidation.

Time of release for publication

The SIS board drew up the consolidated financial statement for the period ending Dec. 31, 2009 on March 16, 2010 and then passed it on to the Supervisory Board for approval.

3. *Liquid funds*

	2009	2008
	€ 1,000	*€ 1,000*
Cash in hand	2	5
Bank deposits	17,100	4,626
	17,102	**4,631**

Bank deposits which are subject to call bear interest at variable rates. The attributable current value of liquid funds is € 17,102,000 (2008: € 4,631,000).

As per Dec. 31, 2009 the group had unused credit lines of € 6,260,000 (2008: € 5,545,000) which already met all requirements for use. The money market/current account line utilized as per Dec. 31, 2009 amounted to € 450,000 (2008: € 458,000).

4. *Accounts receivable*

	2009	2008
	€ 1,000	*€ 1,000*
Accounts receivable	4,972	4,835
Less value adjustments for doubtful accounts	-104	-331
	4,868	**4,504**

Accounts receivable do not bear interest and are normally due within 30 – 90 days.

Doubtful receivables from the sale of goods were value adjusted in the amount of € 104,000 (2008: € 331,000) (profit and loss effect: revenue of € 13,000) (2008: € 236,000). The amount of value adjustment was determined on the basis of past losses of receivables.

The development of the value adjustment account is shown as follows:

	Value adjusted
	€ 1,000
As per Jan. 1, 2008	**111**
Injection reporting as expenditure	290
Utilization	-16
Closing	-54
As per Dec. 31, 2008	**331**
Injection reporting as expenditure	44
Utilization	-214
Closing	-57
As per Dec. 31, 2009	**104**

The age structure of accounts receivable as per Dec. 31, 2009 (Dec. 31, 2008) can be shown as follows:

	Total	Neither overdue nor reduced in value	Overdue but not reduced in value				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
2009	**4,868**	3,542	753	176	46	49	302
2008	**4,504**	2,300	1,226	426	159	86	307

5. *Inventories*

	2009	2008
	€ 1,000	*€ 1,000*
Finished goods and goods for resale at initial/production costs	1,944	2,177
Work in progress at production costs	3,118	3,411
Raw materials and supplies at initial costs	2,638	3,548
Total	**7,700**	**9,136**

The decrease is value in inventories which was booked as expense amounts to T€ 272 (2008: T€ 50). As last year, these expenses are shown as cost of materials.

6. *Other short-term asset*

	2009	2008
	€ 1,000	*€ 1,000*
Prepayments and accrued income	845	955
Sales tax claims	191	197
Claims from reinsurance coverage	172	169
Claims, R&D grants	175	0
Claims, investment grants	80	2,090
Other	90	110
	1,553	**3,521**

7. *Tangible assets*

	Land, buildings	Plant and machinery	Fixtures and fittings	Payments on account and tangible assets in course of construction	**2008 Total**
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	***€ 1,000***
Initial costs					
Jan. 1, 2008	**4,897**	**15,679**	**4,329**	**2,584**	**27,489**
Additions	0	1,761	774	13,956	16,491
Disposals	127	1,549	1,109	68	2,853
Rebookings	9,399	5,957	40	-15,400	-4
Currency differences	0	9	7	0	16
Dec. 31, 2008	**14,169**	**21,857**	**4,041**	**1,072**	**41,139**
Cumulated writeoffs					
Jan. 1, 2008	**1,655**	**8,349**	**3,182**	**0**	**13,186**
Writeoffs	186	2,265	559	0	3,010
Disposals	0	1,396	991	0	2,387
Currency differences	-1	5	7	0	11
Dec. 31, 2008	**1,840**	**9,223**	**2,757**	**0**	**13,820**
Net book value Jan. 1, 2008	**3,242**	**7,330**	**1,147**	**2,584**	**14,303**
Net book value Dec. 31, 2008	**12,329**	**12,634**	**1,284**	**1,072**	**27,319**

	Land, buildings	Plant and machinery	Fixtures and fittings	Payments on account and tangible assets in course of construction	**2009 Total**
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	***€ 1,000***
Initial costs					
Jan. 1, 2009	**14,169**	**21,857**	**4,041**	**1,072**	**41,139**
Additions	84	1,019	316	1,021	2,440
Disposals	4	108	91	1	204
Rebookings	11	1,353	56	-1,420	0
Currency differences	0	-5	-5	0	-10
Dec. 31, 2009	**14,260**	**24,116**	**4,317**	**672**	**43,365**
Cumulated writeoffs					
Jan. 1, 2009	**1,840**	**9,223**	**2,757**	**0**	**13,820**
Writeoffs	417	2,314	342	9	3,082
Disposals	0	109	59	0	168
Rebookings	0	150	-150	0	0
Currency differences	1	-21	13	0	-7
Dec. 31, 2009	**2,258**	**11,557**	**2,903**	**9**	**16,727**
Net book value Jan. 1, 2009	**12,329**	**12,634**	**1,284**	**1,072**	**27,319**
Net book value Dec. 31, 2009	**12,002**	**12,559**	**1,414**	**663**	**26,638**

8. *Intangible assets, goodwill*

	Software	Business values	Develop-ments	Payments on account	2008 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	***€ 1,000***
Initial costs					
Jan. 1, 2008	**1,005**	**11,142**	**6,000**	**14**	**18,161**
Additions	98	0	0	0	98
Disposals	14	0	0	0	14
Rebookings	4	0	0	0	4
Currency differences	1	0	0	0	1
Dec. 31, 2008	**1,094**	**11,142**	**6,000**	**14**	**18,250**
Cumulated writeoffs					
Jan. 1, 2008	**880**	**0**	**300**	**0**	**1,180**
Depreciation (normal)	82	0	0		82
Loss of value	0	9,296	5,288	0	14,584
Disposals	14	0	0	0	14
Currency differences	2	0	0	0	2
Dec. 31, 2008	**950**	**9,296**	**5,588**	**0**	**15,834**
Net book value Jan. 1, 2008	**125**	**11,142**	**5,700**	**14**	**16,981**
Net book value Dec. 31, 2008	**144**	**1,846**	**412**	**14**	**2,416**

	Software	Business values	Develop-ments	Payments on account	2009 Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	***€ 1,000***
Anschaffungskosten					
Jan. 1, 2009	**1,094**	**11,142**	**6,000**	**14**	**18,250**
Additions	51	0	0	0	51
Disposals	1	0	0	0	1
Rebookings	14	0	0	-14	0
Currency differences	0	0	0	0	0
Dec. 31, 2009	**1,158**	**11,142**	**6,000**	**0**	**18,300**
Cumulated writeoffs					
Jan. 1, 2009	**950**	**9,296**	**5,588**	**0**	**15,834**
Depreciation (normal)	67	0	23	0	90
Loss of value	0	0	0	0	0
Disposals	0	0	0	0	0
Currency differences	0	0	0	0	0
Dec. 31, 2009	**1,017**	**9,296**	**5,611**	**0**	**15,924**
Net book value Jan. 1, 2009	**144**	**1,846**	**412**	**14**	**2,416**
Net book value Dec. 31, 2009	**141**	**1,846**	**389**	**0**	**2,376**

Goodwill as per Dec. 31, 2009 relates exclusively to Lewicki microelectronic GmbH, Oberdischingen (hereafter ”LME”).

Goodwill MPD

In business year 2005, SIS acquired 84.03 % of the shares of MPD. This resulted in goodwill worth € 9,297,000, which was reviewed pursuant to IAS 36 as per Dec. 31, 2008 for possible depreciation based on value in use. Due to a change in assessing the market for construction and packaging technologies, depreciation was necessary in the amount of the entire goodwill of € 9,296,000 reported for the MPD acquisition and for intangible assets worth € 5,288,000.

Goodwill LME

From the acquisition of all LME shares in business year 2000 SIS reported a goodwill of €1,846,000, which was reviewed pursuant to IAS 36 as per Dec. 31, 2009 for possible depreciation based on value in use with these assumptions:

- Moderate sales increase of a total of 9 % by the year 2013 compared with 2009.
- A four-year review foresaw a clearly lower gross yield margin in 2010 – 2013 and a slight increase in personnel and depreciation costs, leading to a clearly reduced EBIT margin. From 2013 onwards, constant depreciation and reinvestment at the same level are budgeted.
- No growth rates were assumed for 2013 planning variables (terminal value).
- Discount factor based on the WACC method amounting to 7.06 % (2008: 10.84 %) after tax and 10.19 % (2008: 15.27 %) before tax.

No depreciation was necessary in business year 2009 as a result of this review, nor was unscheduled depreciation for LME carried out in business year 2008.

Development

Development work shown in the balance sheet after the acquisition of MPD will be written off over 20 years from its marketing as planned. As per Dec. 31, 2008 the determination of the value in use of goodwill shown in the balance sheet led to a review of the valuation of development work shown in the balance sheet and already reduced by scheduled depreciation. This resulted in unscheduled depreciation in the amount of €4,988,000. Since then, the residual value of €412,000 has been written off according to plan over the remaining useful life.

9. *Shares in affiliated companies*

In 2009, interests in Heimann Sensor GmbH, an affiliated company, were valued ‚at equity' as in 2008:

	Interest	**2009**	2008
	%	*€ 1,000*	*€ 1,000*
Heimann Sensor mbH	24,9 %	124	124
		124	**124**

Shares in the company as per Dec. 31, 2009 remained unchanged at 24.9 % (Dec. 31, 2008: 24.9 %). The average workforce in business year 2009 was 27 (2008: 27

	2009	**2008**
	€ 1,000	*€ 1,000*
Balance sheet share of affiliated companies		
- Short-term assets	411	360
- Long-term assets	101	110
- Short-term liabilities	378	208
- Long-term liabilities	0	125
- Delimitation of investment grants	10	13
- Equity	124	125
Sales and earnings share of affiliated companies		
- Net sales	796	694
- Result	-1	6
Book value of shares in affiliated companies	124	124

10. *Accrued liabilities*

	Warranty	Injurious contracts	Other	Total
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
Dec. 31, 2008	**530**	**0**	**70**	**600**
Additions	55	143	70	125
Disposals	14	0	0	14
Consumption	32	0	70	102
Dec. 31, 2009	**539**	**143**	**70**	**752**
Short-term	431	48	70	549
Medium/long-term	108	95	0	203

A provision for warranty obligations relating to products sold over the past two years was shown as a liability. Valuation follows empirical values for repairs and complaints. It is expected that most of this cost will be incurred during the next business year, with the entire amount shown as a liability accruing within two years from the accounting date. The assumptions underlying the warranty provision are based on the current level of sales and presently available information on complaints received in relation to products sold during the two-year warranty period.

The provision for injurious contracts makes allowance for the risk of unused office space in the former SIS HQ not being sublet at the rent previously paid. In addition, the risk from the accrual of subletting revenue over time has been covered. It has been assumed that the two interdependent risks would consume one third of the provision over a year, which means that two thirds are long-term.

11. *Other short-term liabilities*

	2009	2008
	€ 1,000	*€ 1,000*
Personnel liabilities	634	1,024
Delimitation items	253	500
Liabilities from outstanding payments for plant additions	334	0
Market value of interest hedge instruments	209	109
Liabilities from wage/church tax, social security	208	241
Liabilities from sales tax	0	5
Other	669	822
	2,307	**2,701**

Other short-term liabilities bear no interest and normally fall due within 60 days.

12. *Short and long-term interest-bearing loans*

Dec. 31, 2009	Total	Short-term up to 1 year	Long-term	Of these 1-5 years	Of these > 5 years
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Secured					
Debts from financing leases and hire purchase contracts	1,951	784	1,167	1,167	0
Bank loans					
Loan € 1.5m I	750	750	0	0	0
Loan € 1.5m II	750	750	0	0	0
Loan € 2.0m I	2,000	2,000	0	0	0
Loan € 3.0m I	2,850	300	2,550	1,200	1,350
Loan € 1,5m VI	1,375	250	1,125	1,000	125
Loan € 3,0m II	2,571	428	2,143	1,715	428
Loan € 2,0m II	800	400	400	400	0
Loan € 3,5m	0	0	0	0	0
Money market loan	450	450	0	0	0
	13,497	**6,112**	**7,385**	**5,482**	**1,903**

Dec. 31, 2008	Total	Short-term up to 1 year	Long-term	Of these 1-5 years	Of these > 5 years
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Secured					
Debts from financing leases and hire purchase contracts	2,556	786	1,770	1,770	0
Bankdarlehen					
Loan € 1.5m I	938	188	750	750	0
Loan € 1.5m II	937	187	750	750	0
Loan € 1.5m III	375	375	0	0	0
Loan € 1.5m IV	375	375	0	0	0
Loan € 2.0m I	2,000	0	2,000	2,000	0
Loan € 3.0m I	3,000	150	2,850	1,200	1,650
Loan € 1.5m VI	1,500	125	1,375	1,000	375
Loan € 3.0m II	3,000	429	2,571	1,714	857
Loan € 2.0m II	1,200	400	800	800	0
Money market loan	457	457	0	0	0
Other loans	167	167	0	0	0
	16,505	**3,639**	**12,866**	**9,984**	**2,882**

Financing leases

The group has entered into financing leases and hire purchase contracts for a number of plants and fixtures and fittings. Resulting min. lease payments may in future be transferred to the cash value as follows:

	Dec. 31, 2009	
	Min. lease payments	Cash value of min. lease payments
	€ 1,000	*€ 1,000*
Within 1 yr.	813	784
Between 1 and 5 yrs.	1,292	1,167
Total min. lease payments	**2,105**	**1,951**
Less interest costs from discounting	-154	0
Cash value of min. lease payments	**1,951**	**1,951**

	Dec. 31, 2008	
	Min. lease payments	**Cash value of min. lease payments**
	€ 1,000	*€ 1,000*
Within 1 yr.	815	786
Between 1 and 5 yrs.	1,959	1,770
Total min. lease payments	**2,774**	**2,556**
Less interest costs from discounting	-218	0
Cash value of min. lease payments	**2,556**	**2,556**

As per Dec. 31, 2009 the net book value of plant and machinery financed by financing leases was € 1,989,000 (previous yr.: € 2,606,000).

Loan for € 1.5m I - IV

The status of loans granted to SIS on Sept. 30, 2005 for financing the acquisition of MPD shares was as follows on Dec. 31, 2009:

1st and 2nd tranche were fully repaid in 2009
3rd tranche for € 0.75m, variable interest rate (3-month Euribor + usual margin), period until 2013
4th tranche for € 0.75m, variable interest rate (3-month Euribor + usual margin), period until 2013

Quarterly repayment as per ultimo was agreed for the long-term bank loans.

The loans are secured by pledging the MPD shares.

Under a supplementary stipulation in the loan contracts, SIS undertakes to comply with these financial covenants:

Min. equity ratio:	(equity at least 30 % of total assets)
Debt service cover:	(EBITDA to debt service ratio at least 1.75)

If the above commitments are not met, the lenders reserve the right to provide/step up collateral. In addition, extraordinary termination is possible. Since the group failed to meet the ratio for debt service cover in 2009, all outstanding loans were shown as short-term. The lenders did not withdraw the loans as per Dec. 31, 2009 or before the drawing up of the annual accounts.

SIS has undertaken to agree with the bank on a suitable interest hedge in the form of an interest rate swap for tranches 2, 3 and 4 of the long-term bank loans based on the master contract for financial forward deals in the amount of the loan for the period ending Dec. 31, 2009 or Dec. 31, 2013 and to obtain the bank's consent for selling the interest rate hedge or using it otherwise over the a.m. period. The interest rate hedges are shown under notes 30.

Loan for € 2m I

To finance the proposed new construction project of Silicon Sensor GmbH, SIS subscribed a private loan for €2m in Dec. 2007. It has a term of 3 years, has to be finally repaid in 2010 and its interest rate is variable based on 3-month EURIBOR plus margin.

The loan is not secured and provides for a rate of interest based on EURIBOR plus a margin. As an interest hedge for the private loan, SIS has agreed on an interest rate swap which is shown unter notes 30.

Loan for € 3m I

In the course of 2008 the group subscribed loans in several tranches for a total of € 3m to finance the sensor factory in Berlin, to be repaid in half-yearly installments of € 150,000 by June 30, 2019. The interest rate is fixed at 4.7 %, and the loan has been refinanced by the lending bank under the ERP regional subsidies program.

The security is a € 3m land charge. SIS has also undertaken to show an equity ratio of at least 25 % oriented toward the annual accounts in terms of commercial law. If the a.m. commitments are not met, the lenders reserve the right to provide/step up collateral security or recall the loan.

Loan for € 1.5m VI

This serves to finance the sensor factory in Berlin and has to be repaid in half-yearly installments of €125,000 by 2015.

The interest rate is 5.25 %, the security is a land charge. SIS has also undertaken to show an equity ratio of at least 25 % oriented toward the annual accounts in terms of commercial law. If the a.m. commitments are not met, the lenders reserve the right to provide/step up collateral security.

Loan for € 3m II

On Dec. 8, 2008 a loan contract for €3m with a validity period until Dec. 31, 2015 was concluded to help finance the new sensor factory in Berlin. Uniform quarterly repayment was agreed. The interest rate is based on EURIBOR for the specific pegging period plus a margin. The safeguard against interest rate risk was an interest rate swap (see notes under 30). The loan has been refinanced by the lending bank under the ERP regional subsidies program.

The security is a € 3m land charge.

Loan for € 2m II

This loan with amortization by installments and a life of five years has to be repaid quarterly in uniform installments from March 30, 2007 onwards.

No material safeguard exists. In a supplementary stipulation of the contract MPD undertakes to maintain a min. equity ratio of 35 % of the balance sheet total.

If the a.m. requirements are not met the lenders reserve the right to provide/strengthen banking securities.

Interest on the loan is paid using a variable interest rate (EURIBOR) plus a margin. In order to safeguard the interest rate, MPD has undertaken to conclude an interest cap. The interest hedge is shown in explanation 30.

Loan for € 3.5m

Under a contract dtd. Dec. 10, 2009 the company arranged an earmarked loan worth € 3,476,000 refinanced by Kreditanstalt für Wiederaufbau under a special program for small businesses for purchasing machinery, equipment and furnishings in keeping with the 2010 investment plan. The securities are collateral assignments for the machines, equipment and furnishings. The loan expires on Dec. 30, 2017. The interest rate has been fixed at 5.69 % p.a. until Dec. 30, 2012. No funds have been called under this contract by the accounting date.

13. Obligations from benefits for employees

Pension plans

Apart from contributing approx. € 857,000 (2008: approx. € 879,000) to the state pension scheme, the company made payments into contribution-oriented plans for Board members of SIS, managing directors of subsidiaries and senior managers. These amounted to € 197,000 (2008: € 266,000).

Share option plans

These were drawn up in 2001 (”SOP 2001”), 2002 (”SOP 2002”), 2006 (”SOP 2006”) and 2009 (”SOP 2009”) and provide options for the purchase of ordinary shares by staff and Board members of the SIS group. The exercise price per share then corresponds to the market price of these shares over a period of five days before the options are granted at the Frankfurt stock exchange. The max. life of an option (waiting period plus exercise period) is seven years (SOP 2001, SOP 2002, SOP 2006) or eight years (SOP 2009).

Shares acquired after the exercise of options have full voting and dividend rights.

Share options may be exercised after a two-year waiting period (SOP 2001, SOP 2002, SOP 2006) or after three years (SOP 2009) from the date of issue subject to the following conditions:

(a) Before the option is exercised, the exercise threshold should have been reached at least once over a period of six weeks (”exercise window”), meaning that the closing price of the company’s share in XETRA trading (or a comparable follow-up system) exceeds the exercise price by more than 10 % (SOP 2001, SOP 2002) or more than 20 % (SOP 2006) or more than 30 % (SOP 2009) on five (SOP 2001, SOP 2002, SOP 2006) or ten successive trading days (SOP 2009) and that (SOP 2001, SOP 2002 only) the value of company shares over the period from granting the specific share options to the beginning of the specific exercise window exceeds the average value of all shares in the NEMAX ALL SHARE index (or a comparable follow-up index as the NEMAX ALL SHARE was discontinued in March 2003) by at least 5 % over the same period. The exercise thresholds of share options issued in business years 2001 - 2003 were reached in business year 2004.

(b) Option rights issued under SOP 2001 and 2002 may not be exercised in the two weeks preceding the announcement of quarterly results and during a period from the end of the business year until the results of the previous business year are published (”holding periods”), even if an exercise window opens during these periods.

Option rights under SOP 2006 may not be exercised in the two weeks preceding the announcement of quarterly results and during a period from the end of the business year until the general meeting of the company which decides on the appropriation of profits from the previous business year, even if an exercise window opens during these periods.

Option rights under SOP 2009 may not be exercised in the three weeks preceding the announcement of quarterly results and during a period from the end of the business year until the general meeting of the company which decides on the appropriation of profits from the previous business year, even if an exercise window opens during these periods.

(c) Over the five-year term of share option plans SOP 2001 and 2002, a max. of 205,000 (SOP 2001: 120,000; SOP 2002: 85,000) options may be issued and called in max. yearly tranches of 33 1/3 % (SOP 2001) or 50 % (SOP 2002). In business year 2001, 40,000 options, in 2002 82,500 options and in 2003 82,500 options were granted to staff and senior managers at a price corresponding to the market price of SIS shares at the time of issue.

During the three-year term of SOP 2006, a max. of 233,000 options from the total volume may be issued to all those entitled, limited to a period of nine months from the Board announcing the results of the previous business year. During business year 2006, 130,000 options were granted to staff, senior managers and Board members, the number in 2007 was 100,000. The issue price corresponded to the average price of the company’s share in XETRA trading (or a comparable follow-up system) over the five trading days which preceded the date of issue, but at least amounted to the pro-rata proportion of capital stock attributable to the company share. The average price of options issued as of June 29, 2006 was €9.33. The average price of options issued as of July 11, 2007 was €18.68.

During the three-year term of SOP 2009, a total of 290,000 options may be issued. In business year 2009, staff, senior managers and Board members were granted 160,000 options at a price corresponding to the average price of the company’s share in XETRA trading (or a comparable follow-up system) over the five trading days preceding the date of issue, but at least reflecting the pro-rata proportion of capital stock attributable to the company share. The average price of options issued as of Nov. 17, 2009 was €6.02. The average price of options issued as of Dec. 9, 2009 was €5.80.

(d) Option rights expire after the exercise period, i.e. five years after the end of the waiting period of two or three years. They are not transferable, except if the beneficiary dies after having acquired the options granted. In such a case the heirs may exercise the options once at the same conditions. If employment is terminated or an appointment withdrawn by the company or beneficiary, or terminated otherwise for whatever reason, options not yet exercisable before the expiry of an employment/appointment will lapse, with the exception of rights granted to Board members. Beneficiaries may exercise options which are exercisable until the termination date only during the exercise window following the termination date.

The table shows the number and weighted average exercise prices (GDAP) of share options granted during business years:

	2009 No.	2009 GDAP	2008 No.	2008 GDAP
Outstanding at beginning of period under review	244,500[1]	Euro 12.86	253,500[3]	Euro 12.54
Granted during period under review	160,000	Euro 5.91	0	Euro 0
Lapsed during period under review	8,000	Euro 4.97	2,000	Euro 5.27
Exercised during period under review	0	Euro 0	7,000	Euro 3.55[2]
Outstanding at end of period under review	**396,500**	**Euro 10.21**	**244,500[1]**	**Euro 12.86**
Exercisable at end of period under review	236,500	Euro 13.12	144,500	Euro 8.83

[1] Includes options for 8,000 shares not counted in keeping with IFRS 2 as they were granted on or before Nov. 7, 2002. Contractual provisions for these options were not changed later so that under they need not be shown in the balance sheet pursuant to IFRS 2.

[2] The average share price at the time of exercising the options was €5.47.

[3] Includes options for 10,000 shares not counted in keeping with IFRS 2 as they were granted on or before Nov. 7, 2002. Contractual provisions for these options were not changed later so that they need not be shown in the balance sheet pursuant to IFRS 2.

The weighted unexpired average contract term for options outstanding as of Dec. 31, 2009 was 5.49 ears (2008: 4.70 years).

The exercise prices for options outstanding at the end of the period under review were between € 3.55 and € 18.68 (2008: € 3.55 - € 18.68).

The share option plans in hand provide for compensation by equity instruments, leading to determination of attributable current value at the time of granting. The table shows the parameters underlying the issue under SOP 2009 in the Black-Scholes model:

	SOP 2009 – issue Nov. 17, 2009	SOP 2009 – issue Dec. 9, 2009
Dividend yield (%)	0.00	0.00
Expected volatility (%)	80.783 and 68.935	77.280 and 67.732
Riskless rate of interest (%)	3.37	2.71
Anticipated term of option (yrs.)	3 and 4	3 and 4
Weighted average share price (€)	6.02	5.8
Exercise price (€)	6.02	5.8
Current value determined (€)	3.25 and 3.26	3.03 and 3.10

Anticipated volatility is based on historic data regarding assumed option terms. SIS assumes the share will exceed the exercise threshold during the option term so that this parameter was not included as reducing option value.

Personnel expense shown for share options granted in 2009 was € 268,000.

14. *Deferred investment grants*

These public payments as granted toward the new production facilities in Berlin required proof of investment and compliance in future with conditions for retaining the subsidized assets and for job creation. The accrual item established which is dissolved over the useful life of the subsidized assets has developed as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Jan. 1	**5,890**	**1,773**
Granted during the business year	337	4,696
Dissolved as affecting the current result	702	579
Dec. 31	**5,525**	**5,890**

In addition, the company received loans with a lower interest rate due to state subsidies paid toward the refinancing conditions of the lending bank.

15. *Subscribed capital*

The capital stock shown in the balance sheet as subscribed capital was € 33,130,000 on the accounting date, Dec. 31, 2009 and consisted of 6,625,899 individual share certificates with a calculated nominal value of € 5. Changes in SIS capital stock can be shown as follows:

	Ordinary shares (issued and paid in) *(1,000)*		Capital stock *(€1,000)*	
	2009	**2008**	**2009**	**2008**
Jan. 1	**3,903**	**3.896**	**11,710**	**11,689**
Issue of new shares by cash capital increase (March 09)	514	0	1,542	0
Capital increase from company funds	0	0	8,835	
Issue of new shares by cash capital increase (Nov. 09)	2,209	0	11,043	0
Issue of new shares by exercising share options	0	7	0	21
Dec. 31	**6,626**	**3,903**	**33,130**	**11,710**

Approved capital

A resolution adopted by the general meeting on May 29, 2007 authorized the Board to increase the capital stock by € 5,284,350 Euro (approved capital 2007/I). After the capital increase against cash deposit from approved capital in 2007, remaining approved capital was € 4,227,600 as per Dec. 31, 2008. A capital increase against cash deposit from approved capital 2007/I in March 2009 increased the capital stock by € 1,542,348.

The remaining approved capital 2007/I expired under a general meeting resolution dtd. June 9. 2009. At the same time, the Board was authorized to increase the capital stock by € 11,043,165 (approved capital 2009/I). Approved capital 2009/I was fully utilized after capital had been increased against cash deposit in Nov. 2009.

There was no approved capital as per Dec. 31, 2009.

Potential capital

This is shown in the following table:

	2009	2008
	€ 1,000	*€ 1,000*
Potential capital I	23	23
Potential capital II	21	21
Potential capital IV	699	699
Potential capital V	3,000	0
Potential capital VI	1,450	0
	5,193	**743**

Potential capital I

This is used to grant shares to holders of share options and, as of Dec. 31, 2008 stood at € 22,500 for the issue of 7,500 new individual share certificates made out to bearer and entitled to a dividend from the beginning of the business year in which they were issued. Capital is increased only to the extent that holders of subscription rights use these rights under the 2001 share option plan.

Potential capital II

This is used to grant shares to holders of share options and, as of Dec. 31, 2008 stood at € 21,000 for the issue of 7,000 new individual share certificates made out to bearer and entitled to a dividend from the beginning of the business year in which they were issued. In business year 2008, 7,000 new individual share certificates were subscribed and capital stock increased by € 21,000. Capital is increased only to the extent that holders of subscription rights use these rights under the 2002 share option plan.

Potential capital IV

The general meeting on June 15, 2006 conditionally increased the capital stock by up to € 699,000 (nominally) by issuing 233,000 new individual share certificates made out to bearer and entitled to a dividend from the beginning of the business year in which they were issued (potential capital IV). Capital is conditionally increased only to the extent that holders of subscription rights issued under the 2006 share option plan authorized on June 15, 2006 use these rights. No options under the Potential capital IV program were exercised during the period under review.

Potential capital V (convertible loans)

The general meeting on June 9, 2009 conditionally increased the capital stock by up to € 3m (nominally) by issuing 600,000 new individual share certificates made out to bearer in the nominal amount of € 5/share (potential capital V). The conditional capital increase serves to grant shares to holders of convertible loans who exercise conversion privileges. Authorization to issue convertible loans expires on June 8, 2014. New shares issued after the exercise of conversion privileges are entitled to dividends from the beginning of the business year in which they were issued. The conditional capital increase will be effective only to the extent that conversion privileges are exercised or conversion duties from such convertible loans are fulfiled. No convertible loans were issued during the period under review.

Potential capital VI

The general meeting on June 9, 2009 conditionally increased the capital stock by up to €1,450,000 (nominally) by issuing 290,000 new individual share certificates made out to bearer and entitled to a dividend from the beginning of the business year in which they were issued (potential capital VI). Capital is conditionally increased only to the extent that holders of subscription rights issued under the 2009 share option plan authorized on June 9, 2009 use these rights.

A total of 160,000 shares based on Potential capital VI was issued in business year 2009.

16. *Reserves*

These developed as follows in business years 2008 and 2009:

	Share premium	Retained income	Paper profits/ losses	**Total**
	€ 1,000	*€ 1,000*	*€ 1,000*	***€ 1,000***
Jan. 1, 2008	**16,135**	**-862**	**89**	**15,362**
Acquisition of non controlling interests	0	-73	0	-73
Agio from issuing new shares by the exercise of share options	4	0	0	4
Capital increase transaction costs (net of tax)	-9	0	0	-9
Share-based remuneration	0	81	0	81
Net loss from cash flow hedge	0	0	-198	-198
Dec. 31, 2008	**16,130**	**-854**	**-109**	**15,167**
Agio from cash capital increase (March 09)	926	0	0	926
Capital increase from company funds	-8,835	0	0	-8,835
Agio from cash capital increase (Nov. 09)	1,104	0	0	1,104
Offsetting of balance sheet loss	-4,588	0	0	-4,588
Capital increase transaction costs (net of tax)	-119	0	0	-119
Share-based remuneration	0	268	0	268
Net loss from cash flow hedge	0	0	-100	-100
Dec. 31, 2009	**4,618**	**-586**	**-209**	**3,823**

* tax effects taken into consideration throughout

a) *Share premium*

The cash capital increases of March/Nov. 2009 raised the share premium account in the amount of the subscription price above the stated value per share (€ 2,030,000).

During business year 2009 no new shares (2008: 7,000) were subscribed under the share option program for staff. The resulting agio of € 4,000 exceeding the nominal value from the previous year was allocated to the share premium provision.

Capital increase from company funds

The general meeting on June 9, 2009 adopted such an increase by € 8,835,000 which was taken from the share premium account.

Transaction costs

Retained income shows costs incurred for authority fees and consultants in the issue of new shares as a deduction from equity (less any related income tax advantages) (€ 119,000, previous year: € 9,000).

b) Retained income

Share options

The expense from ongoing share option programs was shown as affecting the current result under personnel costs in the amount of € 268,000 (same period the year before: € 81,000) in the balance sheet and paid into retained income to the extent it was spread over the vesting period (in which the entitlements in question accrued).

c) Acquisition of non - controlling interests

On Nov. 7, 2008 the company purchased, at a total price of € 100,000, from Dr. Göbel and Dr. Kriegel 15 % each of their shares of Silicon Instruments GmbH, thus raising the company’s holding in the subsidiary from 70 - 100 %. The deal was shown in the balance sheet as having been made between shareholders.

d) Provision for unrealized profits/losses

Here that part of the profit/loss from a cash flow hedge instrument is shown which is determined as an effective safeguard.

Currency adjustment items

Also required in the group accounts is a provision for foreign currency differences under equity (currency adjustment items), which lists differences based on the conversion of the accounts of the foreign subsidiary.

17. Net sales

	2009		2008	
	€ 1,000	%	€ 1,000	%
Domestic	18,376	60.83	26,685	69.36
Europe	8,518	28.20	8,877	23.08
USA	1,325	4.39	1,529	3.97
Other	1,988	6.58	1,379	3.59
	30,207	**100.00**	**38,470**	**100.00**

18. *Other operating income*

This is composed as follows:

	2009	2008
	€ 1,000	*€ 1,000*
R&D expense grants	442	409
Income from public grants		
• Investment grants	608	397
• Investment subsidies	94	183
Income from other payments in kind	166	177
Below-the-line items	72	61
Insurance compensation	143	18
Other	441	301
	1,966	**1,546**

19. *Inventory changes of finished goods and work in progress*

	2009	2008
	€ 1,000	*€ 1,000*
Work in progress	-294	325
Finished goods	-232	951
	-526	**1,276**

20. *Material costs, cost of purchased goods and services*

Material costs and expenses for purchased goods and services are composed as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Raw materials and supplies	10,172	11,074
Purchased goods and services	1,288	1,579
	11,460	**12,653**

21. *Personnel expenses*

These are composed as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Wages, salaries	9,894	12,463
Social insurance contributions including old-age provision	1,975	2,248
	11,869	**14,711**

Personnel expenditure includes € 268,000 (2008: € 181,000) for granting share options and € 161,000 (2008: € 700,000) related to the termination of employment contracts.

22. *Other operating costs*

These include the following:

	2009	2008
	€ 1,000	*€ 1,000*
Space costs	1,153	1,265
Advertising costs	479	778
Vehicle costs	458	529
Maintenance costs	560	515
Legal and consulting costs	392	500
Distribution costs	461	534
Disposal of fixed/current assets	197	358
Provision value adjustments receivables	44	290
Insurance	318	286
Packaging	188	246
Travel costs, entertainment	157	238
Delivery costs	209	184
Examination and drawing up of annual and interim accounts, book-keeping costs	129	172
Investor / Public Relations costs	183	164
Communication costs	76	143
Outbound freight	65	101
Warranty	117	97
Other operational supplies	181	255
Costs of general meeting	70	87
Supervisory Board remuneration	86	85
Incidental costs of money transfer	45	51
Patent costs	18	17
Other	706	372
	6,292	**7,267**

23. *Taxes on income and profit*

The major elements of income tax expenditure for business years 2009 and 2008 are as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Actual tax expense	0	760
Adjustments for unrelated actual income taxes shown during the period	-185	576
Income from the carryback of losses during the period	-81	0
Latent tax expense / (income) from the reversal of temporary differences	-12	-1,600
Taxes on transaction costs shown in equity	0	4
Income tax revenue/expense shown in the consolidated profit and loss statement	**-278**	**-260**

The transition between income tax expense and the product of the balance sheet period result and the applicable tax rate of the group for business years 2009 and 2008 is composed as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Result before income tax	**-1,945**	**-11,545**
Tax expenditure at estimated tax rate of 30 %	**-583**	**-3,464**
Transition to income tax expenditure shown		
Actual income tax, unrelated	-185	576
Latent income tax, unrelated	112	0
Non-deductible depreciation goodwill	0	2,696
Tax losses, non-capitalized	494	0
Non-taxable investment grants	-140	-128
Non-deductible operating expenses	36	0
Taxes on transaction costs	0	4
Other	-12	56
Tax expenditure	**-278**	**-260**

Latent income tax on the accounting date was composed as follows:

	Group accounts		Group profit and loss statement	
	2009	2008	**2009**	2008
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*
Tangible assets	99	0	99	0
Other provisions	64	21	43	5
Latent income tax claims	**163**	**21**	142	5
Adjustment to attributable current value for acquisition (developments)	117	123	6	1,586
Tangible assets	145	155	10	9
Other provisions	146	0	-146	0
Latent income tax due	**408**	**278**	-130	1,595
Latent income tax yield			**12**	**1,600**

Income tax is income and latent tax paid or payable in specific countries.

For 2009 and 2008 it includes corporate tax, business tax, solidarity surcharge and applicable foreign tax. After the reform of the Corporate Tax Act in 2008, the applicable German tax rate on distributed and retained profit has been 15 %. In addition, a solidarity surcharge of 5.5 % has been levied on corporate tax. Business tax now stands at 11.55 or 14.35 % depending on a municipality's collection rate.

Current planning for the group foresees no major short/medium-term impact and related income tax burdens on earnings from foreign subsidiaries and therefore neglects a possible effect from deviating foreign tax rates. Similarly, losses carried over from foreign subsidiaries are not capitalized. Tax losses carried over from PSS amount to € 434,000 (2008: € 401,000) and lapse after 20 years. Estimated tax losses carried over from domestic subsidiaries do not lapse and, for corporate tax, amount to € 655,000 and for business tax to € 890,000. These are estimates as tax notes have not yet been received.

24. *Net earnings per share*

In calculating the undiluted net earnings per share, the result attributable to holders of ordinary shares of the parent company is divided by the weighted average no. of ordinary shares circulating during the year.

In calculating the diluted net earnings per share, the result attributable to holders of ordinary shares of the parent company is divided by the weighted no. of ordinary shares circulating during the year, plus the weighted average no. of ordinary shares that would result from converting all potential ordinary shares with diluting effect into ordinary shares. Potential ordinary shares with negative net earnings per share which would otherwise have a diluting effect in this case have dilution protection, leading to equal nos. of diluting and non-diluting shares in business years 2009 and 2008. SIS has issued 395,500 stock options (Dec. 31st, 2008: 244,500) which may dilute future net earnings per share. In case of positive net earnings in 2009 the dilution would have had an effect of 2,212 nominal shares (2008: 4,482 shares).

No transactions with ordinary shares or potential ordinary shares took place between the accounting date and the drawing up of group accounts.

25. *Notes on cash flow statement*

In keeping with IAS 7 “Cash flow statement”, SIS uses the indirect method in reporting cash flow from ongoing activities in which period profit or loss is adjusted with reference to transactions not affecting payments, accruals and deferrals of the past/future inflow and outflow of funds from current activities, and revenue/expense items in connection with cash flow from investment or financing. The transition uses the operating result as a basis so that interest and tax payments are shown as separate items of operative cash flow.

Financial funds are defined according to the cash disposition of the company. Apart from cash it includes current account liabilities at banks. The composition of financial funds can be shown as follows:

	2009	2008
	€ 1,000	*€ 1,000*
Liquid funds	17,102	4,631
Current account liabilities	-450	-458
	16,652	**4,173**

26. *Notes on equity changes*

The company made no distribution in 2009 (2008: € 390,000 corresponding to € 0.10/share).

27. *Contingent liabilities and other financial obligations*

(1) Court proceedings and litigation claims from normal activities could in future be asserted vis-à-vis subsidiaries. Resulting risks are analyzed for probable occurrence. Even though the outcome of such disputes is not always clear, the Board sees no major obligations resulting therefrom.

(2) Financial obligations also result from the renting of office space and equipment, leases of cars, office systems and buildings, and allocations from contribution-oriented pension plans. Average lease terms are between 3 and 20 years, and there are renewal/purchase options only for buildings. The lessee had to make no commitments when contracting the leases.

Other financial obligations resulting in this context are as follows:

	2010	20011 bis 2014	ab 2015
	€ 1,000	*€ 1,000*	*€ 1,000*
Rental/leasing expenditure	1,064	2,695	5,935
Contribution-oriented pension plans	84	336	343
	1,148	**3,031**	**6,278**

Rent and leasing expenditure over the remaining total contract term amounts to € 9,694,000 (previous yr.: € 9,845,000). Total rent and leasing expenditure in business year 2009 was € 952,000 (previous yr.: € 971,000) reporting as expenditure in the profit and loss statement.

28. *Segment reporting*

The group consists of several legal entities managed as independent business segments for better control, with managers monitoring operating results separately to make decisions on resource allocation and determine earning power. Segment development is assessed in terms of operating results defined acc. to the German Commercial Code. Internal prices between segments are calculated as prevailing under normal conditions between outside third parties.

Since products made, services offered, production processes used and types of customers served are highly comparable, individual segments have been combined into one business segment which is subject to reporting requirements.

	Business segment		Consolidation		Adjustment to IFRS		Group	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	€ 1,000	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*	*€ 1,000*
Sales								
External sales	30.182	38.480	25	-10	0	0	30,207	38,470
Internal sales	2.575	4.916	-2.575[1]	-4.916[1]	0	0	0	0
Total sales	**32.757**	**43.396**	**-2.550**	**-4.926**	**0**	**0**	**30,207**	**38,470**
Result								
Inventory changes	-564	1.460	38	-184	0	0	-526	1,276
Capitalized company-produced assets	32	69	0	0	0	0	32	69
Other operative income	2.243	2.576	-277	-1.030	0	0	1,966	1,546
Material expense	-14.027	-17.569	2.567	4.916	0	0	-11,460	-12,653
Personnel expense	-11.926	-15.138	57	0	0	427	-11,869	-14,711
Depreciation	-2.994	-15.281	-178	12.189	0	-14,584	-3,172	-17,676
Other operating expense	-9.659	-9.472	3.760	2.027	-393	178	-6,292	-7,267
Financial result[2]	-898[2a]	-753[2b]	2[2c]	0[2d]	99[2e]	110[2f]	-797	-643
Other income/expense (group items for other items of your internal reporting)	-34	44	0	0	0	0	-34	44
Income tax	266	244	-14	16	26	0	278	260
Net loss before minority interest	**-4.804**	**-10.424**	**3.405**	**13.008**	**-268**	**-13,869**	**-1,667**	**-11,285**
Assets								
Segment assets	72,643	71,519	-11,873	-19,825	-334[3]	0[3]	60,436	51,694
Latent tax claims	0	0	0	0	163[3]	21[3]	163	21
Tax refund claims	393	1.070	0	0	0	0	393	1,070
Total assets	**73,037**	**72,589**	**-11,873**	**-19,825**	**-171[3]**	**0[3]**	**60,992**	**52,785**
Liabilities								
Segment debts	28,822	36,914	-3,223	-7,739	-392[4]	-279[4]	25,207	28,896
Latent tax due	0	0	270	278	138[4]	0[4]	408	278
Tax liabilities	0	1,153	0	0	0	0	0	1,153
Total liabilities	**28,822**	**38,067**	**2,953**	**-7,461**	**254[4]**	**-279[4]**	**25,615**	**30,327**
Other information								
Investment	2,491	16,589	0	0	0	0	2,491[5]	16,589[5]

[1] Income from transactions with other segments is eliminated for consolidation purposes.
[2] The financial result in each case includes financial yields and expenditure as follows:

[a] Financial yields: € 179,000; Expenditure: € 1,077,000
[b] Financial yields: € 471,000; Expenditure: € 1,224,000
[c] Financial yields: € 120,000; Expenditure: € 122,000
[d] Financial yields: € 82,000; Expenditure: € 82,000
[e] Financial yields: € 0; Expenditure: € 99,000
[f] Financial yields: € 0; Expenditure: € 110,000

[3] Segment assets include no latent tax and business value/goodwill (€1,846,000) as these assets are controlled at group level
[4] Segment liabilities do not include latent tax as they are controlled at group level. However, they contain provisions for currency safeguarding which in the group accounts are reclassified into the hedging provision to ensure an effective safety relation.
[5] Investments relate to additions to tangible and intangible assets.

Major adjustments HGB – IFRS

As a result of intergroup mergers, expenses were capitalized which in terms of IFRS would not be capable of capitalization. This raised other operating expense, and segment assets dropped to € 334,000.

Conditions for capitalizing a provision for an injurious contract under IFRS arose only in the course of business year 2009, whereas a provision under HGB had already been capitalized as early as Dec. 31, 2008. This led to shifts in periods as regards other operating expense worth € 178,000.

Unlike HGB, IFRS does not carry negative market values of interest hedge instruments as liabilities in annual accounts. To the extent that effective hedging relations are in place, equity will be debited directly, leading to a drop in finance expenses of € 110,000 (business year 2009) and € 99,000 (business year 2008) in terms of IFRS.

Higher depreciation during business year 2008 pursuant to IFRS results from the assessment of MPD's goodwill and development performance. The deviation in personnel expense during business year 2008 was due to unrelated expense from share options. This was shown in the annual statement pursuant to HGB as current accounts, whereas the statement pursuant to IFRS brought an adjustment of the 2007 consolidated financial statement.

Geographic segments

Sales	**2009**	**2008**
	€ 1,000	***€1,000***
Germany	18,376	26,685
Europe	8,518	8,877
USA	1,325	1,529
Other	1,988	1,379
	30,207	**38,470**

The above information on segment yields is grouped to suit customer location.

Long-term assets and investment into long-term assets is practically limited to Germany, with only a negligible part going to the U.S.

29. *Transactions between affiliated companies and individuals*

Transactions with individuals or companies that may be influenced by the reporting company or in turn may influence the reporting company need to be disclosed unless they have already been shown in the consolidated accounts by including consolidated companies.

The following transactions were carried out with individuals and companies which may be described as close to the SIS group:

SIS board:

Dr. Hans-Georg Giering, Deuben
Dr. Ingo Stein, Berlin (since Oct. 1, 2009)
Dr. Bernd Kriegel, Zeuthen (until Sept. 18, 2008)

Current remuneration for Board members in business year 2009 amounted to:

	Dr. Giering	Dr. Stein	**Total**	Previous year
	€ 1,000	*€ 1,000*	***€ 1,000***	*€ 1,000*
Non-performance related pay	344	64	408	706
Performance-related pay	0	0	0	0
Benefits related to termination of employment	0	0	0	700
Total	344	64	**408**	**1,406**

Non-performance related pay includes pecuniary advantages from the private use of company cars by Board members and the employer's contribution to health and nursing schemes. In addition, payments were made toward contribution-oriented pension plans of Board members (see also Note 13) in the amount of € 90,000 (2008 € 168,000), which together with the granting of share options represent elements of remuneration with a long-term incentive effect.

In business year 2009, Dr. Giering was assured that in the event of a change of control SIS would pay out the cash value of future remuneration from the existing service contract, limited to three annual salaries. Allowance will also be made for the higher amount from the previous year's bonus and the bonus of the current year. These payments will be made if the Supervisory Board cancels Dr. Giering's appointment within six months from the change of control or if Dr. Giering so desires.

Under Share Option Plan 2009 (Potential capital VI), 50,000 share options were granted to Board member Dr. Giering and 30,000 to Board member Dr. Stein. The options with an exercise price of € 5.80 and a life of 8 years may be exercised for the first time after a waiting period of three years. Share options in the amount of € 260,000 in business year 2009 (previous year: € 0) were fully reported as expenditure. These elements of remuneration with a long-term incentive effect are not included in the above list. Total options held by the Board on the closing date amount to 160,000 (2008: 80,000). Dr. Kriegel, a former Board member, held 80,000 share options on the accounting date (2008: 80,000) which have not expired under employment contract arrangements.

Total non performance related remuneration to the Executive Board amounted to T€ 408 (2008: T€ 706), long term incentive remuneration amounted to T€ 350 (2008: T€ 168); no benefits related to termination of employment were granted in 2009(2008: T€ 700).

Payments worth € 38,000 for outstanding salaries were made to Dr. Kriegel, former member of the Board, in business year 2009. These amounts were fully provided for as per Dec. 31, 2008. No remuneration was paid to members of the Board, or survivors, during the business year.

SIS purchased 15 % each of the shares of Silicon Instruments GmbH from Dr. Göbel and Dr. Kriegel for € 50,000 each in 2008.

SIS Supervisory Board

In business year 2009, Supervisory Board members were paid € 81,000 (2008: € 85,000) including attendance fees. On the accounting date, remuneration incl. attendance fees not yet paid out amounted to € 45,000, of which € 17,000 related to 2008 and the rest to 2009.

Supervisory Board members were not granted share options.

A contract concerning advice and support for the Executive Board in selected fields of planning, control and monitoring was concluded with Herr Ernst Hofmann, Supervisory Board chairman, on Sept. 26, 2008. The contract was limited until March 31, 2009 and terminated on that date. For contractual services an amount of € 80.000 plus expenses and sales tax was paid in 2009. A provision of € 80,000 which existed as per Dec. 31, 2008 was used up in business year 2009.

Dr. Dirk Besse is partner in the lawfirm Hogan & Hartson Raue LLP. For activities of Hogan & Hartson Raue LLP € 38,000 in fees were paid in 2009.

Individuals and companies close to the group:

Heimann Sensor GmbH, Dresden (affiliated company, 24.9 % share)

	2009	2008
	€ 1,000	*€ 1,000*
Net turnover of MPD with Heimann Sensor GmbH	210	200
Total	**210**	**200**

	2009	2008
	€ 1,000	*€ 1,000*
Due from Heimann Sensor GmbH	55	22
Total	**55**	**22**

30. *Finance risk management*

Risk management for financial instruments

The group is internationally active to some extent and therefore exposed to market risks from varying exchange rates. In addition, some of the company’s financing is by bank loan, resulting in interest rate risks against which the company has hedged. Foreign currency risks are reduced because PSS operates independently. The company's primary financial instruments, apart from accounts receivable, are liquid funds and bank borrowings, all meant to finance operating business. The major risks relate to default, liquidity, exchange rates, interest rates and current values.

The group essentially uses instruments (with the exception of derivatives) such as bank loans, current account credits, financing-leasing, hire purchase contracts, currency media and short-term deposits to finance operations and has a range of other financial assets and liabilities such as accounts receivable and liabilities incurred directly during operations.

The group also engages in the derivatives business and particularly interest swaps to manage interest rate risks.

Current value risks

The attributable current value of financial assets and liabilities is reported as the amount at which the instrument in question could be swapped in a present transaction (excepting forced sale or liquidation) between contract seeking business partners. The following methods and assumptions are used to determine the attributable current value:

Currencies and short-term deposits, accounts and liabilities receivable and other short-term liabilities come very close to their book value mainly because of their short terms.

The attributable current values of listed bonds and loans are based on reporting day quotations. The attributable current value of non-listed instruments, bank loans and other financial liabilities, liabilities from financing-leasing and other long-term financial liabilities is estimated by discounting future cash flows using interest rates currently available to outside capital at comparable conditions, credit risks and residual terms.

The group negotiates derivative financial instruments with various sides and particularly banks of good credit status. Interest rate swaps and caps are derivatives valued with a method that uses input parameters observable in the market. Among the most frequent assessment procedures are forward price and swap models involving cash value calculations. They include a number of factors such as the credit status of business partners, currency, cash market and futures prices, interest structure curves and forward rates of underlying raw materials. The derivative item assessed at market value (market-to-market) less credit status value adjustment which is due to the default risk of the other side of the derivative applies as per Dec. 31, 2009. Changes in the default risk of the other side had no major impact on assessing the effect of the hedge in derivatives assigned to safeguards and other financial instruments reported at their attributable current value.

Hierarchy of attributable current values

For each valuation process the group uses the following hierarchy to determine and list attributable current values of financial instruments:

Stage 1: Listed (non-adjusted) prices in active markets for similar assets/liabilities.

Stage 2: Methods in which all input parameters which substantially affect the reported attributable current value can be observed directly or indirectly.

Stage 3: Methods using input parameters which substantially affect the reported attributable current value and are not based on observable market data.

As per Dec. 31, 2009 SIS used stage 2 procedures to value specific assets and liabilities at the attributable current value. The assets and liabilities involved were an interest rate cap and several interest swaps. During the period under review there were no rebookings between stage 1 and stage 2 assessments at the attributable current value as per Dec. 31, 2009 and no rebookings in or from stage 3 assessments of the attributable current value.

Interest rate swaps and interest caps

The group uses interest rate swaps and one interest cap to safeguard against the risk of interest rate changes from its bank liabilities.

	Payments		Reference amount		Current value	
	SIS zahlt	SIS erhält	**2009**	2008	**2009**	2008
			€ 1,000	*€ 1,000*	***€ 1,000***	*€ 1,000*
Interest rate swaps						
Loan € 1.5m I	3.63 %	EURIBOR	750	938	-26	-18
Loan € 1.5m II	3.63 %	EURIBOR	750	937	-27	-18
Loan € 1.5m III	3.41 %	EURIBOR	0	375	0	-2
Loan € 2m I	4.43 %	EURIBOR	2,000	2,000	-67	-72
Loan € 3m II	3.56 %	EURIBOR	2,571	3,000	-89	0
Interest cap						
Loan € 2m II	max. 4,0%		800	1,200	0	1

The attributable current values given derive from the market values of equivalent financial instruments on the accounting date (stage 2 in the hierarchy of attributable current values). All return rate swaps were determined to safeguard cash flow and classified as effective, which is why the attributable current values were shown as equity. The interest cap was determined to safeguard cash flow and classified as effective.

Interest sensitivity

The risk of fluctuations in going interest rates which the group faces results primarily from interest-bearing liquid funds and short-term liabilities with variable interest rates. The table shows the sensitivity of the consolidated result before tax to a possible change of interest rates which, according to reasonable judgment, is basically possible (due to effects on loans bearing variable interest. All other variables remain constant. Group equity is not affected.

	Increase/decrease	Effect on result before tax
	in base points	*€ 1,000*
2009	+15	11
	-10	-7
2008	+15	-5
	-10	+3

Liquidity risk

The group continuously monitors the risk of a liquidity bottleneck with the aid of a planning tool which makes allowance for the terms of financial investments, assets (e.g. receivables, other financial assets) and expected cash flows from operation.

The group's financial liabilities as per Dec. 31, 2009 show the following due dates. Data is given on the basis of contractual non-discounted payments.

Business year as per Dec. 31, 2009	*Due date up to 1 yr.*	*1 - 5 yrs.*	*Over 5 yrs.*	*Total*
	€ 1,000	*€ 1,000*	*€ 1,000*	***€ 1,000***
Interest-bearing loans	6,246	6,465	2,607	14,899
Accounts payable	1,904	0	0	1,904
Other short-term liabilities	2,098	0	0	2,098
Total	**10,599**	**6,485**	**2,069**	**19,153**

Business year as per Dec. 31, 2008	*Due date up to 1 yr.*	*1 - 5 yrs.*	*Over 5 yrs.*	*Total*
	€ 1,000	*€ 1,000*	*€ 1,000*	***€ 1,000***
Interest-bearing loans	4,437	11,079	2,067	18,649
Accounts payable	2,220	0	0	2,220
tax liabilities	1,153	0	0	1,153
Financial derivates	58	81	2	141
Other short-term liabilities	2,592	0	0	2,592
Total	**10,460**	**11,160**	**3,135**	**24,755**

Capital control

This aims primarily at ensuring a high credit status rating and good equity ratio so as to support the group's business activity and maximize shareholder value.

The group uses a debt ratio to monitor its capital:

	2009	**2008**
	€ 1,000	*€ 1,000*
Interest-bearing loan	13,497	16,505
Other financial liabilities	4,211	4,921
Less cash and short-term deposits	17,102	4,631
Net financial liabilities	606	16,795
Equity	35,377	22,458
Equity and net financial liabilities	35,983	39,253
Debt ratio	2 %	43 %

Approved capital on the accounting date was €0 (2008: €4,228,000).

The company complied with the minimum equity ratios specified by lenders as part of loan contracts.

31. *Financial Instruments*

The SIS Group has only derivative financial isntruments valued at their current value (see details for interest swaps, caps in note 2). In case of all other financial instruments the book value equals the current value or current value information is given in the notes.

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. Hans-Georg Giering, Deuben — CEO

Dr. Ingo Stein, Berlin — since October 1, 2009

The supervisory board assigned Dr. Stein as CFO of Silicon Sensor International AG with resolution of September 8, 2009.

Members of the Supervisory Board

Ernst Hofmann, Wiesbaden — Chairman since May 27, 2008
Business consultant — (acting since May 22, 2008)

Dr. Dirk Besse — Deputy Chairman since June 9, 2009
Lawyer

Other Supervisory Board mandate:

- MetaDesign AG, Berlin (Chairman)
- Lbi Germany AG, Köln (Chairman)

Dr. Rainer Marquart — since June 9, 2009
Business consultant

Other Supervisory Board mandate:

- 3-pod AG, Mannheim (Chairman)
- equinet AG, Frankfurt
- Ice Age Ice AG, Maintal
- vwd Vereinigte Wirtschaftsdienste AG, Frankfurt

Membership in comparable national and international committees

- Service Innovation Group, Ettlingen (Member of Advisory Board)

Former

Dr. Dietmar Roth, Hohenstein-Ernstthal — until June 9, 2009
CEO der Roth & Rau AG

Kurt Ochner, Stuttgart — until June 9, 2009
Dipl.-Kfm., Vorstand KST Beteiligungs AG

Other Supervisory Board mandate:

- Sinosol AG, Stuttgart (Chairman)
- HumanOptics AG, Erlangen
- Blättchen & Partner AG, Leonberg (Deputy Chairman)
- Wietler & Partner AG, Mannheim

Dr. Robert Hock, Frankfurt am Main until June 9, 2009
Independent Investment banker

Dr. Harald Rieger, Bad Homburg until June 9, 2009
Lawyer

Other Supervisory Board mandate:

- Zapf Creation AG, Rodental (Chairman)

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

During business year 2009 and prior to publishing the financial report, SIS received the following finally relevant communications pursuant to § 21 para. 1 WpHG which were published pursuant to § 26 para. 1 WpHG:

Publication on February 9, 2009

On 5 February, 2009 Highclere International Investors Limited, London, United Kingdom, gave notice, pursuant to sec. 21 para. 1 of the WpHG, that on 4 February, 2009 its voting interest in Silicon Sensor International AG, Berlin, Germany decreased below the threshold of 5 % and amounts to 4.71 % (183,748 voting rights in relation to the total of 3,903,150) on this day.

All voting rights are attributable to Highclere International Investors Limited in accordance with sec. 22 para. 1 Sent. 1 No. 6 of the WpHG.

Voting rights are attributed to Highclere International Investors Limited by The Highclere International Investors Smaller Companies Fund and The Highclere (Jersey) International Smaller Companies Fund.

Furthermore on 6 February, 2009 Highclere International Investors Smaller Companies Fund, Westport, USA, gave notice, pursuant to sec. 21 para. 1 of the WpHG, that on 28 January, 2009 its voting interest in Silicon Sensor International AG, Berlin, Germany, decreased below the threshold of 5 % and amounts to 4.97 % (194,009 voting rights in relation to the total of 3,903,150) on this day.

Publication on November 11, 2009, amended on February 24, 2010

On November 11, 2009, Mr Daniel Hopp, Germany has informed us according to article 21, section 1 of the WpHG that via shares his voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the threshold of 15 %, 20 % and 25 % on November 6, 2009 and amounts to 29.90 % (1,981,143 voting rights) as per this date.

Of these voting rights, 29.87 % (1,979,273 voting rights) are held by DAH Beteiligungs GmbH, Mannheim, Germany which is controlled by Mr Daniel Hopp, Germany and attributed to Mr Daniel Hopp according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Furthermore, on November 11, 2009, DAH Beteiligungs GmbH, Mannheim, Germany has informed us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190, have exceeded the threshold of 15 %, 20 % and 25 % on November 6, 2009 and amounts to 29.87 % (1,979,273 voting rights) as per this date.

Publication on February 24, 2010

On February 22, 2010, Mr Daniel Hopp, Germany notified us according to article 21, section 1 of the WpHG, in amendment of release on November 11, 2009, that via shares his voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the thresholds of 15 %, 20 % and 25 % on November 6, 2009 and amount to 29.90 % (1,981,143 voting rights) as per this date.

Of these voting rights, 29.87 % (1,979,273 voting rights) are attributed to Mr Daniel Hopp according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Voting rights of the following shareholders, which are controlled by Mr Daniel Hopp and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
DAH Beteiligungs GmbH
Hopp Beteiligungsgesellschaft mbH & Co. KG
Hopp Verwaltungs GmbH

1.1 On February 22, 2010, Hopp Verwaltungs GmbH, Mannheim, Germany notified us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the threshold of 3 % on February 6, 2009 and amount to 3.52 % (137,238 voting rights) as per this date.
All voting rights are attributed to Hopp Verwaltungs GmbH according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
DAH Beteiligungs GmbH
Hopp Beteiligungsgesellschaft mbH & Co. KG

1.2 On February 22, 2010, Hopp Beteiligungsgesellschaft mbH & Co. KG, Mannheim, Germany notified us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the threshold of 3 % on February 6, 2009 and amount to 3.52 % (137,238 voting rights) as per this date.

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DAH Beteiligungs GmbH

2.1 On February 22, 2010, Hopp Verwaltungs GmbH, Mannheim, Germany notified us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the threshold of 5 % on February 24, 2009 and amount to 5.22 % (203,732 voting rights) as per this date.

All voting rights are attributed to Hopp Verwaltungs GmbH according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
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Hopp Beteiligungsgesellschaft mbH & Co. KG

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Voting rights of the following shareholder, which is controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG and is holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
DAH Beteiligungs GmbH

3.1 On February 22, 2010, Hopp Verwaltungs GmbH, Mannheim, Germany notified us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the threshold of 10 % on March 26, 2009 and amount to 13.61 % (601,028 voting rights) as per this date.

All voting rights are attributed to Hopp Verwaltungs GmbH according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
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Hopp Beteiligungsgesellschaft mbH & Co. KG

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DAH Beteiligungs GmbH

4.1 On February 22, 2010, Hopp Verwaltungs GmbH, Mannheim, Germany notfied us according to article 21, section 1 of the WpHG that via shares its voting rights on Silicon Sensor International AG, Berlin, Germany, ISIN: DE0007201907, WKN: 720190 have exceeded the thresholds of 15 %, 20 % and 25 % on November 6, 2009 and amount to 29.87 % (1,979,273 voting rights) as per this date.

All voting rights are attributed to Hopp Verwaltungs GmbH according to article 22, section 1, sentence 1, no. 1 of the WpHG.

Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:
DAH Beteiligungs GmbH
Hopp Beteiligungsgesellschaft mbH & Co. KG

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DAH Beteiligungs GmbH

Employees

Average number of staff during 2009 business year:

	2009	2008
	Employees	*Employees*
Germany	288	312
Other countries	8	6
	296	**318**

The group employed a total of 272 on December 31, 2009 (December 31, 2008: 322 employees).

Audit fees

The following fees were paid for services of the group auditors Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft:

	2009	2008
	€ 1,000	*€ 1,000*
Audit services	76	70
Other services	18	0
	94	**70**

Fees for the final audit includes the audit of SIS AG, the SIS consolidated financial statement and all major subsidiaries of the SIS group.

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

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, 2010

Silicon Sensor International AG

Dr. Hans-Georg Giering
CEO

Dr. Ingo Stein
CFO

Audit Report

We have given the following audit certificate for the annual consolidated financial statements and, the business year management report which has been combined with the report of the company:

"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 – including segment information, 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, 2009.
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 Sec. 315a, para. 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 16, 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Internal statement

By Officers of the company the following shares of the company were held on December 31, 2009:

Dr. Hans-Georg Giering (CEO): 45,000 shares (Dec., 31, 2008: 10,000)

Compliance Statement (balance sheet oath) pursuant to paragraph 264 sec. 2 sentence 3, paragraph 289 sec. 1 sentence 5 HGB (Nr.3)

We assure to the best of our knowledge that according the applicable accounting and reporting standards the financial statement and the consolidated group statement give a true and fair view on the financial, asset and profit situation of the company and that the management report of the company and the group give a true and fair view of the company and the group and describes all significant chances and hazards for an anticipated future development.

Berlin, March 2010

Silicon Sensor International AG

Dr. Hans-Georg Giering
CEO

Dr. Ingo Stein
CFO

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 18, 2009 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 2009, complied with the recommendations of the German Corporate Governance Code as amended on June 6, 2008 with the restrictions listed in each case in the annual statements.

In case the company concludes for the Executive Board and the Supervisory Board an D&O insurance pursuant to **Section 3.8 para. 2** of the Code an appropriate deductible shall be agreed.

The actual D&O insurance for members of the Executive Board and the Supervisory Board does not include a deductible.

The management remuneration adequacy law (VorstAG) has a transition regulation until June 30th, 2010.

Starting June 2010, the legally required regulation on deductibles will be put into place for the Executive Board and integrated into the D&O insurance contract. For members of the supervisory board, a deductible remains to be excluded.

According to **Section 5.1.2 para. 1** of the Code the Supervisory Board together with the Executive Board shall provide for strategic succession planning.

A strategic succession planning doesn't exist presently since the requirement was not seen in the past. A long term succession planning will be developed for the future.

Subsections 5.1.2 para. 2 and **5.4.1** of the Code recommend an age limit both for Executive and Supervisory Board members.

Silicon Sensor International AG does not follow this recommendation and does not foresee any age restrictions for Executive and Supervisory Board members, as the age of board members is not considered as a fundamental criteria for suitability.

Subsection 5.3.1, 5.3.2 and 5.3.3 of the Code proposes that the Supervisory Board sets up committees.

The Supervisory Board of Silicon Sensor International AG does not form any committees but meets collectively at all meetings, given the size of the company.

In **subsection 5.4.6,** the Code recommends additional profit-related components for the remuneration of Supervisory Board members.

Members of the Supervisory Board of Silicon Sensor International AG presently do not receive profit-related remuneration. In a resolution on May 29, 2007 and on June 18, 2008 the general meeting determined the remuneration for Supervisory Board members and did not introduce profit-related components.

Berlin, March 2010

Silicon Sensor International AG

Dr. Hans-Georg Giering CEO	Dr. Ingo Stein CFO	Ernst Hofmann Chairman Supervisory Board

Report of the supervisory board

The main challenge in 2009 from the point of view of Executive Board and Supervisory Board has been the implementation of the strategic development of Silicon Sensor towards a strong integrated industrially oriented group, against the odds of the financial crisis. The strategy has been designed in 2008 and resolved in January 2009. The main conditions for the achievement were

- *the measures for the assurance of liquidity which were resolved at the end of 2008 and implemented immediately,*
- *the focus of all employees on the resumption of operations in full scale after the crisis*
- *the improvement of the financial strength of the company*

The Supervisory Board has monitored on a regular basis the executive activities of the Executive Board on the basis of underlying goals, articled and bylaws taking strictly into account all legal requirements. This applies especially to the monitoring of all measures within the scope of the resolved strategic plan:

- *The merger of the operating subsidiaries in Berlin into Silicon Sensor International AG and*
- *The improvement of the financial strength of the company via two successfully implemented capital increases*

Thus, the conditions for a positive business development of the Silicon Sensor Group were established.

The Supervisory Board has been provided with information on the business development of Silicon Sensor International AG on a regular basis and could be assured of the unreserved compliance of management. Basic issues of business policy and strategies for growth and internationalization have been discussed thoroughly in six meetings, four conference calls and one constitutive session. In January 2009 a cost cutting program, the strategic refocusing of the group and the financial situation has been discussed abundantly. The active search for a second Executive Board member of Silicon Sensor International AG was started. In February 2009, the Supervisory Board confirmed the execution of a capital increase. In March 2009 the consolidated financial statements were discussed extensively with the group auditors and approved afterwards. In April 2009, the Supervisory Board visited our subsidiary Microelectronic Packaging Dresden GmbH to deal with its business development and the cost cutting program. Besides, the annual shareholder meeting was prepared.

With resolution of the annual shareholders' meeting of the company, the Supervisory Board was downsized from six to three members. Dr. Rainer Marquart, Dr. Dirk Besse and Ernst Hofmann were appointed as members of the new supervisory board by proposal of the shareholders. In the subsequent supervisory board meeting, Ernst Hofmann was again elected as Chairman of the Supervisory Board. Dr. Dr. Besse was elected as deputy chairman.

From June 2009 on, the supervisory board was informed on a regular basis in and outside the Supervisory Board meetings about the development of the group and the status of the cost cutting program. These were discussed thoroughly and advice was given. For further improvement of the risk management, the reporting was enhanced and refined.

The search for a second Supervisory Board member has been successfully completed. The Supervisory Board has resolved in a conference call in September 2009 that Dr. Ingo Stein will be appointed as member of the Executive Board of the company for five years.

In the beginning of December 2009, the budget for 2010 and the medium term budget for the Silicon Sensor International group was presented by the Executive Board and approved after an extensive discussion. The employment contracts of the Executive Board members were adjusted to meet the requirements of the VorstAG (management remuneration adequacy law) and the modified German Corporate Governance Code (DCGK). Especially the adequacy and comparability according to the modified § 87 (1) AktG was monitored. Besides, a number of discussions between management board and supervisory board have taken place. The Supervisory Board did not form any committees but met completely. No Supervisory Board member has taken part in less than half of the meetings. Efficiency monitorings have been conducted on a regular basis and as a result the reporting has been improved.

After an exhaustive discussion, management and supervisory board have given the declaration of conformity with the German Code of Corporate Governance according to § 161 AktG.

Following § 114 AktG, the Supervisory Board has passed resolutions on service contracts between the company and the Chairman of the Supervisory Board Ernst Hofmann and, besides, the law firm Hogan & Hartson Raue LLP, where the Supervisory Board member Dirk Besse is partner. Details on these contracts are disclosed in chapter 29 of the business year management report on pages 76f.

The financial statement plus management report of the Group and of SIS AG as of December 31, 2009 was audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Berlin who gave an unqualified opinion. The financial statements plus management report of the Group and of SIS AG were provided to the members of the supervisory board, reviewed and discussed extensively with the auditors in the meeting on March 25. The Supervisory Board has approved the consolidated financial statement which, thus, is adopted. The financial statement of the Group was approved and ascertained without objections.

The Supervisory Board thanks the management board, the resigned members of the supervisory board and all employees for their commitment and their performance and wishes prosperity for the challenges of the business year 2010. Special thanks to our existing and new shareholders, who put trust in the company.

Berlin, March 2010

Silicon Sensor International AG
The Supervisory Board

Ernst Hofmann
Chairman Supervisory Board