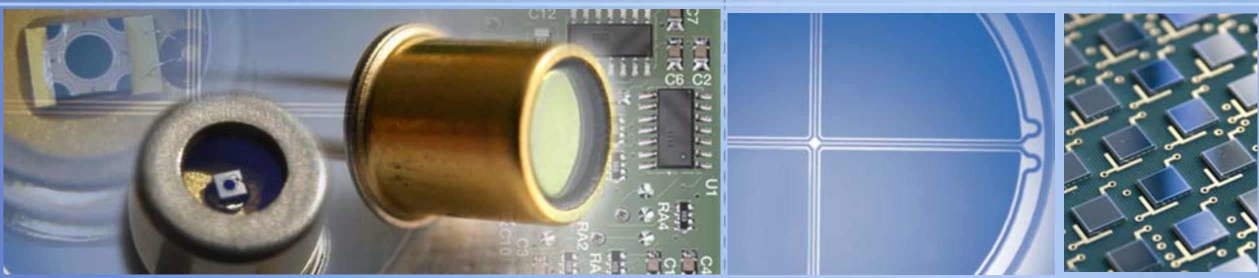
SILICON SENSOR

SILICON SENSOR INTERNATIONAL AG



BUSINESS REPORT
for the year 2004

Silicon Sensor International AG

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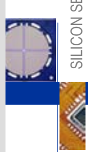


Business report 2004 for the Silicon Sensor Group

Financial ratios October 01, 2004 - December 31, 2004 (IV. quarter 2004)

	Oct. 01, 2004 - Dec. 31, 2004 € 1,000	Oct. 01, 2003 - Dec. 31, 2003 € 1,000	Change in € 1,000	% Change
Sales revenue	3,243	2,764	479	17
Back orders	8,178	8,384	-206	-2
EBITDA	1,126	741	385	52
EBIT	570	407	163	40
Three-month surplus	491	189	302	160
Three-month surplus €/ individual share certificate	0.21	0.08	0.13	163
Share	2,317,500	2,250,000	67,500	3
R&D expenditure	116	157	-41	-26
Staff (Dec. 31)	102	101	1	1

Financial ratios Jan. 01, 2004 - Dec. 31, 2004 (twelf-months report 2004)

	Jan. 01, 2004 - Dec. 31, 2004 € 1,000	Jan. 01, 2003 - Dec. 31, 2003 € 1,000	Change in € 1,000	% Change
Sales revenue	13,841	11,959	1,882	16
Back orders	8,178	8,384	-206	-2
EBITDA	3,475	2,360	1,115	47
EBIT	2,201	1,152	1,049	91
Twelf-month surplus	1,484	720	764	106
Twelf-month surplus €/ individual share certificate	0.65	0.32	0.33	103
Share	2,275,993	2,250,000	28,125	1
R&D expenditure	479	619	-140	-23
Staff (Dec. 31)	102	101	1	1

Foreword

by the Management Board

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

To all shareholders and business associates,

the mood of contentment with the good performance achieved in 2004 was profoundly dampened by the death, on Jan. 10, 2005, of Dr. Edmund Rickus (56), board member and director of Lewicki microelectronic GmbH. He died after a long illness and was a man of outstanding character held in high regard by business partners, colleagues and members of staff.

On Jan. 11, 2005 Maximilian Sailer took over as general manager of Lewicki microelectronic GmbH. The Managing Board wish him the best of success in this new position.

Benefiting from a better macroeconomic environment, the Silicon Sensor group has again achieved steady growth during the 2004 business year. The management is glad to report sound business development with sales rising by about 16 % on the previous year, from € 11.96m to € 13.84m, while profits increased by 106 %.

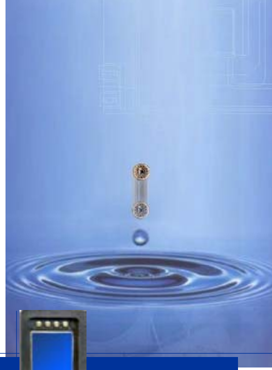
EBITDA rose by 47 %, from € 2,360,000 (Dec. 31, 2003) to € 3,475,000 (Dec. 31, 2004). In terms of operating results, EBIT grew by 91 %, from € 1,152,000 (Dec. 31, 2003) to € 2,201,000 (Dec. 31, 2004). The result after tax and interest improved by 106%, from € 720,000 (Dec. 31, 2003) to € 1,484,000 (Dec. 31, 2004). Earnings per share stood at € 0.65, an improvement of € 0.33 over the previous year (€ 0.32 on Dec. 31, 2003).

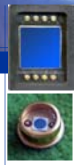
Recent trends in the U.S. suggest that the North American subsidiary will again make a positive contribution to group results in the current business year.

Negotiations with big customers were not concluded during the period under review and are therefore not reflected in the orders on hand. Back orders were almost unchanged on Dec. 31, 2004 (€ 8.18 m) compared with the previous year (€ 8.38m on Dec. 31, 2003). There is a general trend toward customers placing orders at ever shorter terms, particularly as regards hybrid production.

The main lines continue to be customized products, some of them requiring massive development outlays, with the accent on user-specific hybrid circuits, sensor solutions and avalanche photodiodes.

The period under review has laid the basis for continued sound growth of the group. The Managing Board expects new impulse for expansion





to come from such areas as optical communication, security engineering and automotive where orders from major customers are being seriously discussed.

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

Not least, the commitment of our shareholders has gone a long way toward making 2004 a good business year in which key decisions were made to ensure a prosperous future for the Silicon Sensor group.

Berlin, March 2005

Silicon Sensor International AG
The Executive Board

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

Business development

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

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

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

Since its establishment, the group has sought to ensure sufficient liquidity for growth and made good progress during the period under review. Here again good progress has been made, with operative cash flow improving by 122 % compared with the previous year. Liquid assets rose by 255 %, from € 1,065,000 (Dec. 31, 2003) to € 3,780,000 (Dec. 31, 2004).

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

Foreign developments

Once the group's share in the European market has consolidated, the greatest potential for growth will be in North America and Asia. In order to get a foothold in these markets and become an international player, Silicon Sensor has systematically invested in Pacific Silicon Sensor Inc. In 2004, the U.S. subsidiary reported its first positive year-end result, with sales rising by 28 %, from US$ 766,000 (Dec. 31, 2003) to US$ 981,000 (Dec. 31, 2004) - organic growth which indicates rising acceptance of Silicon Sensor products in the U.S. market. The organic growth which has been achieved is evidence of the growing acceptance of Silicon Sensor products also in North America. A continuous rise in the contribution to operating income is expected for the subsidiary during business year 2005.

Personnel

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

Staffing levels in the Silicon Sensor group rose to 102 at the year's end (compared with 101 at the end of 2003).

Prospects

SIS has established itself as a major specialized supplier of optical sensors made to client specifications and high quality standards.

The group foresees growing sales and revenues in almost all subsidiaries, with the greatest increases expected for Pacific Silicon Sensor Inc. and Silicon Sensor GmbH. These profits and those made by other affiliates will hopefully add up to group results in 2005 which are better than those achieved in 2004.

Silicon Sensor's market significance will continue to grow in 2005, with the group's wealth of know-how being utilized as a strategic factor for success in consistently expanding both sales and revenues.

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

The multifunctional uses of sensors will make them key factors of growth also in future, with the group's development resources providing the basis for high-quality, ambitious and problem-solving optoelectronic systems.

Berlin, March 2005

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel   Dr. Hans-Georg Giering

Management report

Group Management Report and Management Report of Silicon Sensor International AG for the Financial Year 2004

- ***Sales increase 16 % from € 12 million to € 14 million***
- ***EBIT rises 91 % from € 1,152,000 to € 2,201 million***
- ***Revenues up 106 % from € 720,000 to € 1,484,000***
- ***Liquid assets rose by 255 %, from € 1 million to € 3.8 million***
- ***Operating cash flow improves substantially from € 1.75 million to € 3.87 million***
- ***Further growth based on extensive use of customized opto-electronic sensors worldwide***

Accounting procedures

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

General economic environment

Whereas general market trends are characterized by sluggish economic growth, VDI (the association of German engineers) has singled out commercial uses of light as a future market. Optical technology already provides about 15 % of all manufacturing jobs, and estimates made by IPM (Fraunhofer Institut für Physikalische Messtechnik) in Freiburg/Germany see 30 % of today's electronic processes replaced by optical techniques in future. While this is partly responsible for the semiconductor industry's dwindling (processor/ memory) chip sales, there is no major decline seen in the trade with optical high-end sensors.

The SIS Executive Board believes that the niche market the company has found with user-specific high-end applications will develop favorably in comparison with other business trends because clients will continue to demand such products in their drive to find and provide more innovative uses.

Sales

Continuous sales growth

Consolidated sales have risen by 16 % from € 11.96 million (2003) to € 13.84 million (2004), a development to which nearly all subsidiaries active in the core business contributed. The only exception was Silicon Instruments GmbH whose turnover dropped because orders were transferred to the following financial year. Results reported by Lewicki microelectronic GmbH were very satisfactory but did not exceed the excellent performance of the previous year. With marked sales and profit growth, Silicon Sensor GmbH showed the best year-end result since its establishment in 1991. Silicon Projects GmbH, the group's in-house provider of IT services, met expectations by achieving the same turnover as in the previous year.

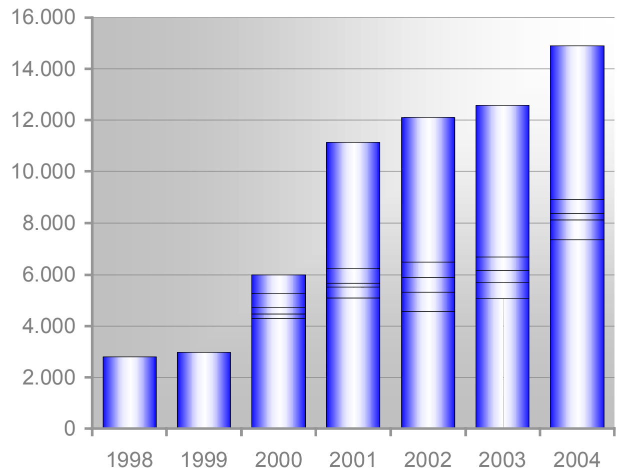
Silicon Sensor GmbH	(+ € 2.283 m; + 45.0 %)
Lewicki microelectronic GmbH	(+ € 0.111 m; + 1.9 %)
Pacific Silicon Sensor Inc.	(+ US$ 0.214 m; + 28.0 %)
Silicon Instruments GmbH Berlin	(- € 0.205 m; - 44.0 %)
Silicon Projects GmbH	(+ € 0,011 m)

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

Sales growth (before consolidation) in € 1,000

SALES in € 1,000	2002	2003	2004
Silicon Sensor	4,566	5,058	7,341
Pacific Silicon Sensor	720	752	963
Silicon Instruments	592	466	261
Silicon Projects	581	526	537
Lewicki microelectronic	5,636	5,858	5,969
Total	**12,095**	**12,660**	**15,071**

Sales in € 1,000



Earnings

Consolidated profit and loss statement

TEuro	2004	% of Total Output	2003	% of Total Output
Sales	13,841	99 %	11,959	97 %
Total output	**13,921**	100 %	**12,374**	100 %
Cost of materials	-3,268	24 %	-3,289	27 %
Gross margin	**10,653**	77 %	**9,085**	73 %
Personnel expenses	-5,013	36 %	-4,693	38 %
Depreciation & amortization (fixed assets, goodwill)	-1,274	9 %	-1,208	10 %
Other expenses	-2,165	16 %	-2,032	16 %
Operating income	**2,201**	16 %	**1,152**	9 %
Financial and investment income/ expenses	-183	-1 %	-286	-2 %
Consolidated income before tax	**2,018**	15 %	**866**	7 %
Income taxes	-531	4 %	-154	1 %
Loss attributable to minority interests	-3	0 %	8	0 %
Consolidated net income	**1,484**	11 %	**720**	6 %

Group results showed a positive trend in the period under review. Compared with the previous year, there was a slight reduction in the labor cost quota and the percentage share of depreciation in overall performance. Consolidated income after taxes almost doubled as a result of higher sales, the use of synergistic effects in affiliated companies, and a better financial result.

Despite an increase in the number of shares from 2,250,000 to 2,317,500 net earnings per share rose by 103 % to € 0.65 (Dec. 31, 2004) compared with the previous year (€ 0.32) and thus exceeded the expectations of analysts who had expected no change.

Investments

Total group capital investment in 2004 amounted to approx € 0.5 million, resulting in an investment quota of about 4 %.
Investment concentrated on extending the manufacturing base, developing and installing a thermomigration plant, and quality assurance. The aim was to achieve future growth targets while making allowance for risk management and related systems and requirements. Capital spending at the same time will ensure the group's innovation capability in future.

Acquisitions

Even though acquisition talks did not continue in 2004, improved profitability encouraged the Silicon Sensor group to look for companies that had synergistic potential and were compatible in the drive to strengthen its position in the sensor market in the long run. This planning is due to the good experience gained in acquiring and integrating Lewicki microelectronic GmbH, which helped consolidate the group's market standing in the 2004 business year.

State of the Silicon Sensor International AG

Silicon Sensor International AG developed sucessfully throughout the past financial year. The overall performance of Silicon Sensor International AG was almost unchanged. Income before tax and interest improved due to good results reported by subsidiaries, despite an increase in other operating costs from € 945,000 (Dec. 31, 2003) to € 1,127,000 (Dec. 31, 2004) and the remission of a debt incurred by the U.S. subsidiary worth € 0.5 million. This waiver strengthened the subsidiary's equity capital and, thus, the position of Pacific Silicon Sensor Inc. in its domestic markets. The Executive Board welcomes the increase in liquid assets from € 230,000 (Dec. 31, 2003) to € 2,500,000 (Dec. 31, 2004).
At the General Meeting, the Managing Board and Supervisory Board of the Company will propose at the general meeting that the retained earnings from business year 2004 (€ 1,037,592.24) be allocated to other retained income.

The Managing Board expects sound development and a further improvement of results for the 2005 business year.

The Silicon Sensor share

Silicon Sensor shares repeated the good earnings of the year before and clearly outperformed both the DAX and TecDax. In relation to the average Xetra closing quotation, performance was 191 % better in 2004. A contributing factor undoubtedly was the extraordinary involvement of major financial investors who have expressed continued long-term interest in the company. In addition, more institutional investors are being attracted to Silicon Sensor shares.

Another indicator of sound growth for Silicon Sensor International AG has been the willingness of members of staff to subscribe new shares under the company's share option scheme. These subscriptions reached a total of 67,500 new shares during the 2004 business year, creating an inflow of liquid funds worth € 358,000.

After the end of the period under review, Invision Asset Management AG of Zug/Switzerland notified the Management Board under § 21 para. 1 WpHG that Hitech Premium N.V. of De Ruyterkade 62, Willemstad/Curacao, a fully owned subsidiary of Mach Hitech AG, a holding company listed at the Swiss stock exchange, had acquired 5 % of the equity capital of Silicon Sensor International AG. Voting shares held in Silicon Sensor International AG exceeded 5 % on Jan. 21, 2005 and now stand at 5.06 %.

Mach Hitech, listed at the Swiss stock exchange, buys stakes in rapidly growing and innovative hi-tech companies with the accent on small and medium-sized firms headquartered in Europe who, along with the investors, benefit from their know-how, networking and teamwork.
Invision Asset Management AG is a member of the Invision Group. The policy of Invision AG is to give entrepreneurial support to portfolio companies through teamwork aimed at creating a surplus value. Apart from receiving a capital inflow, these companies have direct access to the experience and far-reaching connections of Invision's investment team. Support covers all operations, from strategy and product development to financial counseling.

The Managing Board welcomes Hitech Premium N.V., a company managed by Invision Asset Management AG of Zug/Switzerland, as a viable partner and shareholder of Silicon Sensor International AG. This interest is expected to guarantee further expansion. The free float currently is about 89 %.

Share indices (Xetra)

	12/31/ 2004	12/31/2003	12/31/2002
Share price	11.89	4.08	3.45
Number of shares	2,317,500	2,250,000	2,250,000
Earnings per share	0.65	0.32	0.16
KGV	18	13	22
KUV	1.99	0.74	0,67
Free float	2,261,000	1,540,000	754,500

Group Financing

Consolidated cash flow statement

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

€ 1,000	2004	2003	Change
Operative cash flow	3,871	1,747	2,124
Cash flow from investment activities	-396	-587	191
Cash flow from financing activities	-753	-914	161
Foreign currency translations	-7	-6	-1
Change in liquid funds	2,715	240	2,475
Liquid funds at the beginning of the year	1,065	825	
Liquid funds at the end of the year	3,780	1,065	

While operating cash flow again improved substantially, it was on the whole only slightly positive due to funding requirements for new projects, a high investment quota and the consistent repayment of bank borrowings. On aggregate, the cash flow is clearly positive despite financing requirements for new projects, a high investment quota and a consistent policy of reducing bank borrowings. The Executive Board expects operating cash flow to increase further in the current fiscal year.

Low liquid funds - liquidity assured

Compared with the end of the previous year, funds increased by € 2,715,000. Budgeting for the years to come is aimed at sound growth, with liquidity planning for targeted sales growth and related positive operating cash flows. Exponential strategic expansion in future would require more inputs of equity and borrowed capital.
The Executive Board regards current liquidity as sufficient to achieve growth targets.

Balance sheet structure in 2004

The capital stock shown in the balance as subscribed capital amounted to € 6.953 million on the accounting date, Dec. 31, 2004 consisted of 2,317,500 individual share certificates with an accounting par value of € 3.00.

A resolution adopted by the General Meeting on June 25, 2003 authorized the Executive Board to increase the capital stock, subject to the consent of the Supervisory Board, once or repeatedly by a total of € 3,375,000,00 over a period ending June 24, 2008 through the issue of new individual share certificates made out to bearer (authorized capital).
This means that the authorized capital was € 3,375,000 as per Dec. 31, 2004.

The balance sheet total was € 0.8 million (6 %) less on the accounting date and stood at € 14.7 million. Equity capital on the accounting date showed an increase of € 1.83 million and stood at € 9.78 million (previous year € 7.95 million), which is equivalent to an equity ratio of 67 % (previous year 57 %). The liquidity of the Silicon Sensor group on the accounting date was € 3.780 million (previous year € 1,065,000).

Employees

On Dec. 31, 2004 Silicon Sensor had a total workforce of 102 worldwide, compared with 101 on Dec. 31, 2003. Of these, 98 were employed in Germany and 4 in other countries.

Product development

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

Apart from developing customized solutions, Silicon Sensor GmbH improved its process for making NIR epitaxial avalanche photodiodes (APDs) in 2004. These are the products expected to contribute most growth in future. The company also made progress in the field of array technology.

Lewicki microelectronic GmbH works on a wide range of custom-designed systems for medical, aeronautic and space applications, along with specific security engineering projects.
Pacific Silicon Sensor Inc. has come up with user-friendly system modules for APDs, and position and wavelength-sensitive photodiodes. Its activity in California is built around customized product development.

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

Group R & D expenditure in 2004 was € 0.5 million, a decrease of about 19 % (2003: € 0.619 million). This is because more customers are now prepared to award development contracts to the company, reducing the group's own R & D expenditure.

Risk Management

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

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

- Value-oriented administration should continuously add to company goodwill and improve the return on assets.
- Operational procedures should be based on decentralized management and generally accepted rules governing internal controls. Subsidiaries, divisions and departments are responsible for their own business process and should work to defined guidelines and standards established by the Executive Board. Related internal activities are illustrated in ISO documents describing process standardization, which should be followed.
- Silicon Sensor has its own standard strategy, planning and budgeting procedures for recording, assessing, monitoring and controlling the business process, which were also followed in 2003. Assistance is provided in the form of continuous market and competition research, and a monthly reporting system gathering data on orders, employment, earnings and the financial situation. The entire cost accounting system is undergoing extensive restructuring and improvement to be continued in 2004.
- The Executive Board and Directors of subsidiaries held quarterly meetings in 2004 to discuss and assess cumulative and individual risks with a view to complete processes and the group as a whole.
- Reporting and checking procedures used within the group give decision-makers the latest information, for instance on trading results, as well as early warnings of changes in the business environment for corrective action to be taken.

Risks regarding the future development of the group

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

Proposed expansion of the group calls for constant liquidity, and there are cash reserves to deal with unforeseen developments. Existing credit lines for € 1.85 m which are presently not utilized by the company's will go a long way toward securing budgeted liquidity in the 2005 business year.

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

Silicon Sensor GmbH has continued work on its thermomigration plant, a world first which did not come on stream in the second half of 2004 as scheduled. Readiness for production is now planned for the second half of 2005. Due to the plant's complex technology, more time than previously budgeted may be needed before it reaches the production stage. As a mere precaution, € 294,000 was written off as unscheduled depreciation for the thermomigration division in the 2004 business year.

Favorable trends in worldwide stock markets in the 2004 business year also affected Silicon Sensor's share price. There is currently no major risk of underpricing due to price movement resulting from general market trends, which would substantially restrict Silicon Sensor's future financial margin in terms of steps taken in relation to equity.

Outlook

Development of market environment is very difficult to assess

Cyclical trends in the sensor market and its environment should improve from the second half of 2004. Silicon Sensor's growing sales are primarily due to the customized solutions the company offers. Potential expansion can also be anticipated as a result of product development and further penetration of U.S. markets.

In the 2005 financial year the Executive Board expects first stimuli for greater sales of APDs from a budding and rapidly growing market for Free Space Optics in the U.S.

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

Order book position

Negotiations with big customers were not finalized during the business year and therefore have had no effect on back orders which remained almost unchanged (€ 8.18 m on Dec. 31, 2004) compared with the previous year (€ 8.38 m on Dec. 31, 2003). Overall, there is now a trend for customers to place orders at shorter terms, particularly in hybrid manufacture.

Acquisitions on a moderate level

Silicon Sensor will consider buying more companies as required, once previous acquisitions have been integrated into the group. As before, such purchases will be made according to in-house rules for optimizing shareholder value.

Statements on future developments

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

Expectations in subsidiaries

The group foresees better sales and revenues in almost all affiliates, the highest increases being expected for Pacific Silicon Sensor Inc. and Silicon Sensor GmbH. The other subsidiaries, too, will make profits so that consolidated results for 2005 can be expected to surpass those of 2004.

Expectation for the Group

In view of the group's proposed future development and results reported for the first quarter of 2005, another increase in sales and profits is anticipated for the year as a whole. A positive result is expected from ordinary activities as a result of all the proposed measures described above.

Developments after the accounting date

On Jan. 10, 2005, Dr. Edmund Rickus, board member and long-time director of Lewicki microelectronic GmbH, died after a long illness at the age of 56. He is remembered as man of outstanding character. Maximilian Sailer took over as general manager of Lewicki microelectronic GmbH on Jan. 11, 2005.

Effective on Feb. 28, 2005 Dr. Hanno Marquardt resigned as chairperson of the Supervisory Board for reasons of his own. The Managing Board would like to thank Dr. Marquardt for the commitment he has shown in his post.

Berlin, March 15, 2005

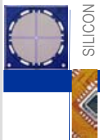
Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel Dr. Hans-Georg Giering

Consolidated Balance sheets

as of December 31, 2004 and 2003 (IFRS)

ASSETS	*Note*	***Dec. 31, 2004*** *TEuro*	***Dec. 31, 2003*** *TEuro*
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	*5*	3,780	1,065
Trade receivables	*6*	904	1,181
Inventories	*7*	3,360	3,765
Prepaid expenses and other	*8*	224	596
Total current assets		**8,268**	**6,607**
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	4,398	5,193
Intangible assets	*10*	133	178
Goodwill	*10*	1,846	1,846
Deferred tax assets	*24*	39	22
Other non-current assets		21	22
Total non-current assets		**6,437**	**7,261**
Total assets		**14,705**	**13,868**



Consolidated Balance sheets

as of December 31, 2004 and 2003 (IFRS)

LIABILITIES AND EQUITY	Note	Dec. 31, 2004 TEuro	Dec. 31, 2003 TEuro
LIABILITIES			
CURRENT LIABILITIES			
Short-term loans	13	664	1,027
Trade payables		262	301
Advance payments received		138	125
Provisions	11	197	222
Liabilities from income tax		654	178
Other accounts payable	12	853	1,093
Total current liabilities		**2,768**	**2,946**
NON-CURRENT LIABILITIES			
Long-term debt	14	1,367	1,697
Employee benefits obligations	15	242	229
Provisions	11	39	46
Deferred tax liabilities	24	249	261
Deferred income		259	354
Contributions of silent partnerships		0	383
Total non-current liabilities		**2,156**	**2,970**
Minority Interests		**3**	**0**
EQUITY			
Share capital	16	6,953	6,750
Reserves	17	3,216	3,061
Translation reserve		-204	-188
Retained earnings		-187	-1,671
Total Equity		**9,778**	**7,952**
Total liabilities and equity		**14,705**	**13,868**

Consolidated Income Statements

for the fiscal year 2004 and 2003 (IFRS)

	4 th quarter Oct. 01, 2004 - Dec. 31, 2004 TEuro	4 th quarter Oct. 01, 2003 - Dec. 31, 2003 TEuro	Note	Twelf - months report Dec. 31, 2004 TEuro	Twelf- months report Dec. 31, 2003 TEuro
	*	*			
Ordinary activities					
Sales	3,243	2,764	18	13,841	11,959
Other operating income	51	51	19	420	449
Increase / decrease in finished goods and work-in-process	-297	-172	20	-429	-205
Own work capitalised	17	71		89	171
Cost of raw materials, supplies and purchased services	-681	-612	21	-3,268	-3,289
Personnel expenses	-1,011	-1,076	22	-5,013	-4,693
Depreciation and amortisation costs on intangible assets, and plant and equipment	-556	-334	9,10	-1,274	-1,208
Other operating expenses	-196	-285	23	-2,165	-2,032
Results of ordinary activities	**570**	**407**		**2,201**	**1,152**
Interest income	13	2		50	7
Expenses	-36	-62		-188	-275
Exchange gains	47	35		47	35
Exchange losses	-92	-53		-92	-53
Results before tax and minority interest	**502**	**329**		**2,018**	**866**
Income tax	-8	-148	24	-531	-154
Results before minority interest	**494**	**181**		**1,487**	**712**
Minority interest	-3	8		-3	8
Consolidated net profit / loss	**491**	**189**		**1,484**	**720**
Basic earnings per share:	**0.21**	**0.08**	25	**0.65**	**0.32**
Number of shares used for the calculation of basic earnings per share (in thousend)	2,276	2,250		2,276	2,250
Diluted earnings per share:	**0.22**	**0.08**	25	**0.65**	**0.32**
Number of shares used for the calculation of diluted earnings per share (in thousend)	2,290	2,250		2,290	2,250

* Quartaly numbers are given in accordance with the roules of Deutsche Börse AG and are not a part of the business report.

Consolidated Cash Flow Statements

for the fiscal year 2004 and 2003 (IFRS)

	Jan. 01 - Dec. 31, 2004 TEuro	Jan. 01 - Dec. 31, 2003 TEuro
Operating income/loss	2,201	1,152
Adjustments to reconcile the consolidated profit/ loss with cash flows from operating activities		
Depreciation of intangible assets and property, plant and equipment	1,274	1,208
Income from contributions	-95	-193
Loss on the disposal of assets	3	3
Changes in provisions	-19	67
Changes in assets not allocable to investing- or financing activities	994	275
Changes in liabilities not allocable to investing or financing activities	-228	-522
Income tax paid	-84	0
Interest payments	-175	-243
Cash flow from operating activities	**3,871**	**1,747**
Investments in intangible assets and property, plant and equipment	-474	-759
Proceeds from the disposal of intangible assets, property, plant and equipment	28	5
Proceeds from government grants	0	160
Interest income	50	7
Cash flow from investing activities	**-396**	**-587**
Proceeds from issuance of share capital	358	0
Proceeds of loans	-1,128	-914
Deposits from financial borrowing	400	0
Payments from buying out the silent partner	-383	0
Cash flow from financing activities	**-753**	**-914**
Net effect of currency translation on cash and cash equivalents	**-7**	**-6**
Net increase in cash and cash equivalents	**2,715**	**240**
Cash and cash equivalents at beginning of year	1,065	825
Cash and cash equivalents at end of year	3,780	1,065

* For composition and trend of financial resources we refer you to note 5.

Consolidated Statement of changes in equity

for the years ended December 31, 2004 and 2003 (IFRS)

	Number of Shares '000	Share Capital TEuro	Reser-ves TEuro	Retained earnings TEuro	Translation reserve TEuro	Total TEuro
Balance at December 31, 2002	**2,250**	**6,750**	**3,061**	**-2,391**	**-105**	**7,315**
Curreny translation differences					-83	-83
Net profit for the year				720		720
Balance at December 31, 2003	**2,250**	**6,750**	**3,061**	**-1,671**	**-188**	**7,952**
Increase in share capital through issue of new shares	68	203	155			358
Curreny translation differences					-16	-16
Net profit for the year				1,484		1,484
Balance at December 31, 2004	**2,318**	**6,953**	**3,216**	**-187**	**-204**	**9,778**

Notes to consolidated accounts

as per Dec. 31, 2004 (IFRS)

1. General

Silicon Sensor International AG, Berlin (hereafter referred to as 'SIS' or 'the company') and its subsidiaries are active in sensor manufacture and microsystem technology, with the accent on the development, manufacture and distribution of user-specific optical semiconductor sensor systems of all types, and the development and production of hybrid ICs. Several affiliates of the group are active in the market as independent business units. Pacific Silicon Sensor Inc. (hereafter referred to as 'PSS'), apart from developing and packaging customized optical sensors, essentially distributes sensor chips and systems of all types in the North American and Asian markets. Silicon Projects GmbH mainly provides IT support and/or assists distribution via an Internet platform. With affiliates utilizing synergistic effects on a larger scale, the average workforce was rose from 101 to 102 during the 2004 financial year. The SIS group is headquartered at Ostendstraße 1 in Berlin/Germany.

2. Consolidated accounts conforming to § 292a paras. 1 and 2 HGB

SIS has exercised the right granted under § 292a paras. 1 and 2 HGB to draw up consolidated accounts for the SIS group in conformity with international accounting standards. Consolidated accounts as per Dec. 31, 2004 were therefore made up as required by the International Accounting Standards Board (IASB), i.e. according to International Financial Reporting Standards (IFRS).

Compliance of consolidated accounts with the 7th EU Directive as required for exemption from consolidated reporting requirements under German commercial law was achieved by interpreting the Directive in terms of DRS 1 "Befreiender Konzernabschluss nach § 292 a HGB“ ('Exempting consolidated accounts pursuant to § 292 a HGB'). The consolidated annual report was drawn up in conformity with § 315 HGB.

Differences between IFRS and reporting requirements under German commercial law relate to the following:

- In terms of commercial law, deferred tax applies to time differences in cases where these affect net income and their dissolution will lead to tax burdens or relief. This includes quasi-permanent differences. Under IFRS, deferred tax on temporary differences between the taxable value of an asset and a debt as against the accounting value have to be shown in the balance sheet. Temporary differences thus have a wider connotation than time differences.

- In contrast to accounting in terms of commercial law, losses of a consolidated subsidiary apportionable to minority interests are first allocated to majority shareholders, provided these pro-rata losses exceed the share in the subsidiary's equity capital. Thereafter, any excess, and any other loss apportionable to minority interests, may not be offset against minority interests in the consolidated financial statement. In this way, no negative adjusting items may arise as a matter of principle. Any future profits shown by the subsidiary will then be fully allocated to the majority interests until the portion of minority shareholder losses borne by the majority shareholder has been made up for.

- Provisions for pensions are to be valued acc. to applicable IFRS rules using the Projected Unit Credit Method. German commercial law provides for a choice of methods including, among other things, components-based tax calculation. This creates differences in the amount of pension provisions. Moreover, there are different rules on how to deal with actuarial profits and losses, budget changes, work hours expenditure for past periods, and budgeted assets.

- The surplus of the initial cost of the shares of a company over the share of market values of the related assets purchased by the acquiring company on the transaction date, less (contingent) debts, is known as goodwill and shown as an asset on the balance sheet. Pursuant to IFRS 3 in conjunction with IAS 36, the company has opted to cease ordinary depreciation of goodwill in the 2004 business year. Accumulated depreciation up to that point in time was offset against the historical costs of goodwill. German commercial law provides for ordinary depreciation of goodwill over the expected useful life.

- Under IFRS, receivables and payables in foreign currencies will be converted at the exchange rate on the reporting date, with allowance made in the profit and loss statement for related exchange gains/losses as affecting the current result. In keeping with principles of commercial law, the minimum value method applies to receivables and the maximum value method to payables. Currency differences resulting from long-term SIS accounts receivable from PSS will be shown directly under equity capital as not affecting the operating result because, in view of the long-term nature of the receivable, it comes under SIS net investment in PSS.

- Under IFRS, the balance sheet of a company should show assets and debts in terms of their closeness to liquidity, i. e. divided into short and long-term groups.

  Commercial law accounting in this respect differs substantially from IFRS because it differentiates between assets merely on the active side in terms of their closeness to liquidity (into fixed assets and current assets).

3. Representation of accounting and valuation methods

The consolidated statement for SIS was drawn up acc. to International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, making allowance for all IFRS/IAS applicable on the accounting date.

No allowance was made for amendments to individual standards (incl. to IAS 32 and IAS 39) resulting from IASB Improvement Projects. Of the IFRS Standards adopted during the 2004 business year,

- IFRS 2: Share based Payments,
- IFRS 3: Business Combinations,
- IFRS 4: Insurance Contracts,
- IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, and
- IFRS 6: Exploration for and Evaluation of Mineral Resources

only IFRS 3 – Business Combinations – was applied in connection with the choice specified in IFRS 3.85 for dealing with company goodwill from Jan. 1, 2004 prematurely and retrospectively in combination with IAS 36 - depreciation certification – and IAS 38 – intangible assets – both of them also revised in 2004. For details see the explanations under „Intangible assets (b) Company goodwill“.

Major accounting and valuation principles used in drawing up consolidated accounts for SIS include the following:

Form of representation

Consolidated accounts are drawn up on the basis of historical or production costs. It is the Executive Board's duty, in this connection, to make estimates and assumptions to the best of its knowledge at the time, where these affect the value of assets and liabilities shown, data on contingent claims on the accounting date, and revenues and expenses for the reporting period. Actual results may later differ from these estimates.

Accounting currency

This is € 1,000.

Consolidation policy

Consolidated accounts for the group cover SIS and the companies it controls by directly or indirectly having over 50 % of the votes deriving from a company's subscribed capital and/or being able to control the financial and business policies of a company in such a way as to profit from its activities. The equity apportionable to minority shareholders and related accounting profits are shown separately in the balance sheet and profit and loss statement.

The acquisition method is used for companies that were purchased. Companies acquired in past years are included in the consolidated accounts from the date of purchase.

Services rendered by one affiliated company of the SIS group to another, and vice versa, and interim profits and losses, are eliminated. The financial statements of companies included in the consolidated accounts for SIS are based on standard accounting and valuation principles. Individual statements for subsidiaries are drawn up as per the accounting date. First-time consolidation takes place on the date of initial consolidation based on interim statements.

Cash and cash equivalent

Cash consists of cash assets and deposit money in banks.

Inventories

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

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

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

Accounts receivable

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

Financial instruments

Financial assets and liabilities in the balance sheet include cash and cash equivalent, trade debtors, accounts payable, other assets and liabilities and long-term loans.

As the majority are assets and liabilities extended by the company, and loans which bear interest at market rates, these are shown at depreciated historical costs.

Tangible assets

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

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

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

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

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

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

Intangible assets

The SIS group activates intangible assets

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

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

1. Technical feasibility of finishing the asset so that it becomes available for internal use and/or sale;
2. An intention to finish the intangible asset for use or sale;
3. A capacity to use or sell the intangible asset;
4. Proof of expected economic benefit;

5. The availability of adequate technical, financial and other resources for completing development and using or selling the intangible asset; and
6. The company's ability to reliably assess the expenses apportionable to the asset during development.

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

(a) Software

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

(b) Goodwill

The surplus of the initial cost of the shares of a company over the share of market values of the related assets to be attached by the acquiring company on the transaction date less (contingent) debts is known as goodwill and shown as an asset on the balance sheet.

Pursuant to IFRS 3 in conjunction with IAS 36, the company has opted to cease ordinary depreciation of goodwill in the 2004 business year. Accumulated depreciation up to that point in time was offset against the historical costs of goodwill.

Regardless of whether or not there is any indicator of depreciation, the amount obtainable per year is determined for the payment-generating unit to which goodwill is attributed. Where the book value is above the obtainable amount, value is adjusted.

(c) R & D costs

As requirements were not met, no R & D costs were activated in 2003 or 2004. Development costs affecting expenses amounted to € 500,000 in 2004 and € 619,000 in 2003.

(d) Permanent depreciation of long-term assets

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

Depreciations made in previous years are canceled in the presence of substantial evidence that depreciation no longer applies to the asset or has reduced. Such cancellation is shown as a profit.

Operating lease

This is a lease where the lessor retains basically all property-related risks and opportunities. Related payments are to be shown as expenditure in the profit and loss statement in a linear procedure over the duration of the lease.

Accrued liabilities

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

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

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

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

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

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

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

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

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

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

Liabilities

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

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Benefits to employees

Performance-oriented plans

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

Contribution-oriented plans

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

Foreign currencies

(a) Foreign currency business

Here the foreign currency amount is converted into the accounting currency at the exchange rate applicable on the transaction date. Translation gains or losses from winding up currency items at exchange rates differing from those originally shown for the period and/or conversion on the accounting date at the day's rate are to be shown as an expenditure or revenue for the period in which they originated.

(b) Foreign subsidiaries

All consolidated foreign subsidiaries of SIS are regarded as economically independent foreign business units as they are financially, economically and organizationally autonomous. Their accounting is done in the national currencies, their balance sheets being converted on the accounting date. Profit and loss statements are converted at the average exchange rate. Any translation gains or losses are to be shown as equity and as not affecting the operating result until the net investment has been sold.

Stock options

Options for buying capital stock of the SIS group have been granted to employees and managers.

On granting such options, the resulting obligations and costs are not shown as personnel expenditure in the profit and loss statement. At the time an option is exercised, payments received are shown as equity.

Payments from public funds

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

Sales realization

Sales are realized pursuant to IAS 18 provided the following requirements have been met in a cumulative procedure:

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

(b) The SIS group retains neither a continuing right of disposal as is usually connected to an economic interest, nor effective control over items and titles sold.

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

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

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

In keeping with the principle of allocating revenues and expenses to applicable accounting periods described in IAS 18, revenues and expenses relating to the same transaction or other event are shown simultaneously.

Earnings tax

Taxes on profits and revenue depend on the amount of tax payable with allowance made for current results and deferred tax as calculated with the liability method. Deferred earnings tax reflects the taxation effects of differences (limited in time) between the book value of an asset or liability in the financial statement and its value in the tax statement. Deferred tax claims and liabilities are determined using tax rates expected for the period during which an asset is realized or a liability discharged. Deferred tax liabilities are rated with allowance made for the company's expectations as to whether or not tax items can be realized as per the accounting date.

Deferred tax claims and liabilities are shown regardless of the point in time at which temporary differences may reverse.

Active deferred tax on loss carried forward is activated only if there is sufficient probability that it may be utilized through future taxable earnings. The SIS group shows a deffered tax claim not previously shown in the balance sheet to the extent that there is a probability of future taxable income making it possible to utilize that claim. Conversely, a deferred tax claim is reduced to the extent that it is no longer probable for sufficient taxable income to be available to utilize that claim in whole or part.

Deferred tax liabilities are to be shown for all taxable temporary differences provided they do not derive from a transaction value whose depreciation is not deductible for tax purposes.

Segments

Business segments: For better control and similar to the previous year, the group was divided into two operating areas for worldwide activities during the 2003 business year. These provide the background for presenting vital information. Financial data on business and geographic segments is provided in item 29.

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

Events after the accounting date

Events which occurred between the accounting date and the day on which the statement was released will be shown on the balance sheet, provided they contain substantial pointers to actual conditions that were relevant already on the accounting date. Events indicative of conditions arising after the accounting date will be listed in the notes if they are essential.

Release for publication

In a meeting on March 15, 2005 the SIS Executive Board agreed to hand over the consolidated accounts as per Dec. 31, 2004 to the Supervisory Board.

4. Changes in group structure

Acquisition of shares:

With the approval of the Supervisory Board dtd. March 19, 2003 SIS, as contractually agreed, acquired 15 % of the shares (15,000 shares) of Pacific Silicon Sensor Inc., USA (‘PSS’) following termination of the employment contract with the director of PSS. After the purchase the company owned 100 % (100,000) shares of PSS on the accounting date. PSS was included as a subsidiary in the consolidated financial statements in 2003 und 2004.

5. Cash

	2004	2003
	€ 1,000	€ 1,000
Check	10	0
Cash on hand	4	4
Bank deposits	3,766	1,061
	3,780	**1,065**

6. Trade receivables

	2004	2003
	€ 1,000	€ 1,000
Trade receivables	934	1,196
Less value adjustments on delinquent receivables	-30	-15
	904	**1,181**

During the business year, value adjustments were made for receivables amounting to € 30,000 (previous year: € 15,000).

7. Inventories

	2004	2003
	€ 1,000	€ 1,000
Finished goods and goods for resale at sale value, net	157	186
at historical/ production value	716	691
Subtotal	**873**	**877**
Work in progress at sale value, net	117	396
at production value	1,758	1,813
Subtotal	**1,875**	**2,209**
Raw materials and supplies at historical costs	612	679
Total	**3,360**	**3,765**

Value adjustments totaling € 1,088,000 (2003: € 1,003,000) were made for the manufacturing costs of inventory on the accounting date.

8. *Accruals and other short-term assets*

	2004	2003
	€ 1,000	€ 1,000
Accruals	106	192
Tax refund claims	13	213
Others	105	191
	224	**596**

Other short-term assets mainly include reinsurance claims of € 95,000 (2003: € 95,000) for old-age provision pledged to Mr. Dr. Kriegel personally and thus not freely available to the company.

9. *Tangible assets*

	Land and buildings	Plant and machinery	Tools and equipment	Payments on account/ tangible assets in course of construction	**2004 Total**	2003 Total
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	**€ 1,000**	€ 1,000
Historical costs						
Jan. 1, 2004	**3,401**	**5,519**	**2,869**	**158**	**11,947**	**11,312**
Additions	0	236	111	91	438	703
Disposals	0	19	2	10	31	16
Rebookings	0	66	28	-94	0	0
Monetary differences	0	-9	-12	0	-21	-52
Dec. 31, 2004	**3,401**	**5,793**	**2,994**	**145**	**12,333**	**11,947**
Accumulated depreciation						
1. Januar 2004	**1,216**	**3,365**	**2,173**	**0**	**6,754**	**5,860**
Depreciation	110	865	219	0	1.194	920
Disposals	0	0	0	0	0	6
Monetary differences	0	-6	-7	0	-13	-20
Dec. 31, 2004	**1,326**	**4,224**	**2,385**	**0**	**7,935**	**6,754**
Net book value	**2,075**	**1,569**	**609**	**145**	**4,398**	**5,193**

Plant, machinery, fixtures and fittings of Silicon Sensor GmbH (hereafter referred to as „SSO“) were pledged as security for short-term loans (see Note 13).

A change in the order position led to a change of the value in use of two machines in the „Order-related Chip and Module Production“ segment. As a result, unscheduled depreciation to the tune of € 294,000 was performed for these machines in the 2004 business year. No unscheduled depreciation took place in the 2003 business year.

10. Intangible assets, goodwill

	Software	Goodwill	2004 Total	2003 Total
	TEuro	*TEuro*	*TEuro*	*TEuro*
Historical costs				
Jan. 1, 2003	**682**	**2,324**	**3,006**	**2,955**
Additions	36	0	36	56
Currency differences	-2	0	-2	-5
Dec. 31, 2003	**716**	**2,324**	**3,040**	**3,006**
Accumulated depreciation				
Jan. 1, 2004	**504**	**478**	**982**	**695**
Depreciation	80	0	80	288
Currency differences	-1	0	-1	-1
Dec. 31, 2004	**583**	**478**	**1,061**	**982**
Net book value	**133**	**1,846**	**1,979**	**2,024**

The business value as per Dec. 31, 2004 relates to Lewicki microelectronic GmbH, Oberdischingen (hereafter referred to as „LME“). In the business year 2000 SIS acquired all of LME's shares. Since the purchase price exceeded the value of LME's equity capital, goodwill was shown for SIS.

Pursuant to IAS 36 this goodwill was examined for possible depreciation as per Dec. 31, 2004. Initially, LME was defined as the payment-generating unit controlled and monitored by management as part of the „Order-related Chip and Module Production“ segment. Future free cash-flows collected by SIS from LME as the payment-generating unit were conservatively estimated on the basis of the latest budget and result projection approved by management for the next 5 years. Future cash-flows led to the determination of a terminal value.

The projection was essentially based on these assumptions:

- A marked drop in sales during the 2005 business year, followed by a slow rise in sales revenue which, however, would remain below the 2004 sales levels over the planning period.
- The 5-year projection assumed that cost developments regarding materials and personnel could be fully passed on to customers. No additional cost increases were expected.
- Replacement/maintenance expenditure would be slightly below annual depreciation.
- The discount factor based on the WACC method would be 7.38 %.

The analysis showed that depreciation was not necessary for the 2004 business year. Unscheduled depreciation did not take place during the 2003 business year either.

11. Accrued liabilities

	Warranty	Other	Total
	€ 1,000	€ 1,000	€ 1,000
Dec. 31, 2003	**228**	**40**	**268**
Additions	66	40	106
Consumption	98	40	138
Dec. 31, 2004	**196**	**40**	**236**
Short-term	157	40	197
Medium/ long term	39	0	39
Dec. 31, 2004	**196**	**40**	**236**

The warranty provisions made for repairs and the replacement of defective products are based on sales volume and empirical values.

Warranty provisions are expected to be taken up within the legal 2-year warranty period.

12. Other short-term liabilities

	2004	2003
	€ 1,000	€ 1,000
For wages/ salaries	450	488
For sales tax	55	99
For social security	88	84
For wage/ church tax	67	79
Other	193	343
	853	**1,093**

13. Short-term loans

		2004	2003
		€ 1,000	€ 1,000
Collateralized			
Bank loan	5,00 % Interest	67	67
	5,15 % Interest	133	0
	5,60 % Interest	267	266
	6,90 % Interest	197	186
	7,75 % Interest	0	438
	8.25 % Interest	0	70
Total, short-term loans		**664**	**1,027**

Short-term loans include the short-term portion of long-term loans, bear fixed interest and are collateralized by transfer of ownership, by security, of fixed assets having a book value of € 2.275 million (previous year: € 2.357 million). As regards collateral for the short-term portions of long-term loans see Note 14.

14. Long-term interest-bearing loans

	2004	2003
	€ 1,000	€ 1,000
Collateralized		
Bank loan, 6,90 % interest, due in 2005	0	197
Bank loan, 5,60 % interest, due in 2009	933	1,201
Bank loan, 5,15 % interest, due in 2007	200	0
Bank loan, 5,00 % interest, due in 2009	234	299
	1,367	**1,697**

The collateral for long-term loans comes from pledged interests in LME and a registered land charge. The net book value of LME assets and debts in the consolidated accounts is € 4,238 million (previous year: € 4,646 million), the land charge is € 1,380 million (previous year: € 1,380 million).

15. Obligations for benefits to employees

Pension plans

The company has made a pension commitment to a board member, contribution-oriented commitments exist for two other board members.

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

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

The amount of the expected pension obligation accrued in the balance sheet was € 242,000 on the accounting date, Dec. 31, 2004 (previous year: € 229,000).

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

	2004	2003
	€ 1,000	€ 1,000
Current working hours reqd.	13	11
Recorded actuarial net profits/losses	-12	20
Interest costs on obligations	12	11
Total pension expenses (revenues)	**13**	**42**

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

	2004	2003
	€ 1,000	€ 1,000
Net liabilities at the beginning of the year	229	187
Pension expenses covered in profit/loss statement	13	42
Net liabilities at year's end	**242**	**229**

The following basic actuarial assumptions were used to determine pension obligations as per Dec. 31, 2004 or 2003:

	2004	2003
	%	%
Discount rate	5.35	5.35
Pension adjustments	2,0	2,0
Future wage/ salary rises	2,0	2,0

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

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

The value of the insurance claim was € 95,000 on Dec. 31, 2004 (previous year: € 95,000) and is shown under other short-term assets on the balance sheet as it is to be liquidated shortly. The claim is presently pledged to Herr Kriegel personally.

Apart from paying into the public pension scheme at the tune of € 269,000 (2003: € 257,000), the company makes payments into contribution-oriented pension plans for the three SIS board members amounting to € 177,000 (2003: € 177,000).

Stock option plan

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

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

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

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

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

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

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

Options granted developed as follows during the business year:

No. of options	of these carried out during the business year on:	Year of issue	Issue price
40,000		**2001**	**5.27**
- 1,500	July 14, 2004		
- 9,000	July 16, 2004		
- 8,000	August 02, 2004		
- 2,000	August 03, 2004		
- 500	August 06, 2004		
- 500	August 25, 2004		
- 3,000	Nov. 24, 2004		
15,500			
40,000		**2002**	**6.39**
- 1,000	July 14, 2004		
- 8,500	July 16, 2004		
- 8,000	August 02, 2004		
- 2,000	August 03, 2004		
- 400	August 06, 2004		
- 3,000	Nov. 24, 2004		
- 100	Dec. 03, 2004		
17,000			
42,500		**2002**	**4.11**
- 9,000	August 10, 2004		
- 4,000	Sep. 09, 2004		
- 500	Sep. 14, 2004		
- 500	Oct. 28, 2004		
- 2,000	Nov. 08, 2004		
- 3,000	Nov. 24, 2004		
- 500	Nov. 26, 2004		
- 500	Dec. 06, 2004		
22,500			
82,500		**2003**	**3.55**

16. Subscribed capital

Capital stock shown as subscribed capital on the balance sheet stood at € 6.953 million on the accounting date, Dec. 31, 2004 and includes 2,317,500 individual share certificates with a calculated nominal value of € 3.00. Changes in the capital stock of SIS can be represented as follows:

	Nominal shares (issued and paid up) (€ 1,000)		Amount of capital stock (€ 1,000)	
	2004	2003	**2004**	2003
Jan. 1	**2,250**	**2,250**	**6,750**	**6,750**
Issue of new shares	68	0	203	0
Dec. 31	**2,318**	**2,250**	**6,953**	**6,750**

A resolution adopted by the General Meeting on June 25, 2003 authorized the Executive Board to increase the capital stock, subject to the consent of the Supervisory Board, once or repeatedly by a total of € 3,375,000.00 over a period ending June 24, 2008 through the issue of new individual share certificates made out to bearer (authorized capital). The issue of new shares from authorized capital is meant to enable the Managing Board, with approval from the Supervisory Board, to respond to short-term financing requirements arising from strategic decisions.

The Managing Board has authorization, with approval from the Supervisory Board, to exclude the subscription rights of shareholders, which shall be possible only in the following cases:

- As compensation for maximum amounts;
- In order to issue shares as staff shares to company employees;
- To obtain non-cash capital contributions, particularly in the form of companies or parts thereof;
- If the capital increase from contributions in cash does not exceed 10 % of the capital stock and the issue price of individual share certificates does not essentially undershoot the stock exchange price;
- For issuing further shares as part of the initial placement of shares by the company.

In addition, contingent capital worth a total of € 615,000 Euro is available from the beginning of the financial year of issue, for issuing a total of 205,000 new individual share certificates made out to bearer, with entitlement to a dividend (contingent capital I, II). The capital increase will be limited by the extent to which bearers of option rights exercise these rights under the 2001 and 2002 stock option plans.

The company's capital stock has also been increased by up to € 600,000 through the issue of 200,000 new individual share certificates made out to bearer from the beginning of the financial year of issue (contingent capital III). The conditional capital increase by Dec. 31, 2006 is to be limited by the extent to which the bearers of convertible and option bonds exercise their right of conversion/option. The new shares will participate in profits from the beginning of the business year in which they originated through the exercise of conversion and/or option rights. So far no convertible and option bonds have been issued.

Under a share option plan for members of staff, a total of 47,500 options were exercised for contingent capital I and another 20,000 for contingent capital II during the business year. Accordingly, 67,500 new individual share certificates were subscribed and the capital stock increased by € 203,000.

Contingent capital as a whole (contingent capital I, II and III) thus stood at € 1,012,500 on the accounting date.

17. Capital reserve

This developed as follows in the 2004 financial year:

	2004 € 1,000	2003 € 1,000
Jan. 1	**3,061**	**3,061**
Premium from issue of new shares	155	0
Dec. 31	**3,216**	**3,061**

During the 2004 business year, 67,500 new shares were subscribed under a share option plan for members of staff. The premium exceeding the nominal value (€ 155,000) went to the share premium account.

18. Sales revenue

	2004		2003	
	€ 1,000	%	€ 1,000	%
Germany	11,634	84.06	10,123	84.66
Europe	1,172	8.47	824	6.87
Israel	13	0.09	8	0.07
USA	1.022	7.38	1,004	8.40
	13,841	**100.00**	**11,959**	**100.00**

19. Other operating income

This is composed as follows:

	2004 € 1,000	2003 € 1,000
Revenue from grants		
• Investment grants	22	32
• Investment subsidies	73	100
Income from other payment in kind	84	50
Below-the-line items	55	114
Insurance recoveries	22	27
Income from public subsidies	5	61
Others	159	65
	420	**449**

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

	2004 € 1,000	2003 € 1,000
Work in progress	-407	-255
Finished goods	-22	50
	-429	**-205**

21. Cost of raw materials, supplies and purchased services

Expenses for material and purchased services are composed as follows:

	2004 € 1,000	2003 € 1,000
Raw materials and supplies	2,733	2,717
Purchased services		
• Assembly	343	428
• Material machining	8	20
• Implantation	120	71
• Other	64	53
Total, purchased services	**535**	572
	3,268	**3,289**

22. Personnel expenses

These are composed as follows:

	2004 € 1,000	2003 € 1,000
Wages, salaries	3,989	3,747
Social levies including retirement arrangements	1,024	946
	5,013	**4,693**

23. Other operating costs

These include the following items:

	2004 € 1,000	2003 € 1,000
Rentals, space costs	287	287
Costs of investor / public relations	245	128
Goods delivery costs	154	159
Advertizing expenses	142	85
Maintenance expenses	134	113
Insurance	132	132
Leasing costs	119	91
Travel/ entertainment expenses	104	89
Motor vehicle costs	79	101
Legal/ consulting expenses	61	40

Costs of General Meeting	45	85
Outgoing freights	42	34
Communication costs	40	38
Directors' fees	39	38
Warranty	34	129
Losses due to the disposal of fixed/current assets	30	3
Incidental costs of money transactions	18	25
Packaging	13	14
Patent costs	8	3
Auditing, preparation of annual/interim accounts, bookkeeping costs	164	157
Others	275	281
	2,165	**2,032**

24. Tax on income and profits

Tax expenditure is composed as follows:

	2004	2003
	€ 1,000	€ 1,000
Interest revenue	-560	-177
Interest expenditure for loans	29	23
	-531	**-154**

Taxes on earnings cover taxes paid or payable in specific countries and all deferred tax.

They include corporate and business tax, the German solidarity surcharge, and related foreign taxes. Earnings tax in Germany on paid-out and retained results has stood at a uniform 25 % since. In addition, a 5.5 % solidarity surcharge is levied on corporate tax. Local business tax is between 15.25 % and 17.01 % depending on the locality.

Under the Flood Relief Act, the corporation tax rate was raised from 25 to 26.5 % in 2003 for one year only, with no specific impact on the company. No allowance was therefore made for this one-time effect in planning future taxes.

The group's weighted average tax rate for the years 2004 and 2003 (corporate and local business tax plus solidarity surcharge) which is used to calculate deferred tax was 38.9 %. Present tax budgeting assumes no short or medium term improvement of results from the performance of foreign subsidiaries which might give rise to more earnings tax so that a possible effect from differing foreign tax rates is neglected. Correspondingly, no loss carryovers of foreign subsidiaries are fully activated.

The changeover between effective and legal tax rates is as follows:

	2004	2003
	€ 1,000	€ 1,000
Result before earnings tax	**2,018**	**866**
Tax yield (+), tax expenditure (-) estimated tax rate	**-785**	**-337**
Translation into earnings tax expenditure shown		
Utilization of tax loss carryover	232	218
Goodwill amortization	0	-60
Non-activated loss carryovers	0	-63
Tax-free earnings	8	12
Others	14	76
Tax expenses/ yields	**-531**	**-154**

Deferred tax is used to cover all major differences (limited in time) between individual accounts and the tax statement, and the difference (limited in time) deriving from consolidation adjustments. In addition, deferred tax claims are activated in the presence of non-utilized tax loss carryovers. In past business years, active tax apportioned to losses/loss carryovers was not activated as a precaution. Tax loss carryovers were reported for SII, PSS and SIP in the 2004 business year.

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

	2004		2003	
	€ 1,000		€ 1,000	
SIS	0	*	155	*
PSS	1,055	*	1,471	*
SII	37	*	309	*
SIP	0	*	28	*
	1,092		**1,963**	

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

Losses carried over by German subsidiaries may be utilized for an indefinite period while those of PSS become invalid after about 20 years.

Deferred tax items are composed as follows:

	Jan. 1, 2004	Expenditure/ yield	Dec. 31, 2004
	€ 1,000	€ 1,000	€ 1,000
Provisions for pensions	22	2	**24**
Other provisions	0	15	**15**
Active deferred taxes	**22**	**17**	**39**
LME plot	261	12	**249**
Deferred tax liability	**261**	**12**	**249**
Deferred tax liability, net	**239**	**29**	**210**

25. Net earnings per share

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

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

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

	For the 2004 business year		
	Profit for the period	**Weighted average no. of shares (1,000)**	**Net earnings per share**
Accounting profit to be attributed to shareholders	1,484		
Undiluted net earnings per share			
Accounting profit available to ordinary shareholders	1,484	2,276	**0.65**
Diluted net earnings per share			
Accounting profit available to ordinary shareholders	1,484	2,290	**0.65**

	For the 2003 business year		
	Profit for the period	**Weighted average no. of shares (1,000)**	**Undiluted net earnings per share**
Accounting profit to be attributed to shareholders	720		
(Un)diluted net earnings per share			
Accounting profit available to ordinary shareholders	720	2,250	**0.32**

26. Notes on cash flow statement

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

For the composition of funds please refer to Note 5.

27. Net earnings per share

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

(2) Financial obligations also derive from renting office space and equipment, leasing cars and grants received from contribution-oriented pension plans. In keeping with the economic content of lease arrangements, they should be classified as operating leases from which the following contingencies may arise:

	2005	2006 - 2008	ab 2009
	TEuro	*TEuro*	*TEuro*
Rental, leasing	371	630	0
Contribution-oriented pension plans	137	411	1,082
	508	**1.041**	**1,082**

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

28. Segment reporting

This is provided on the following basis:

(1) Business divisions

Application-oriented chip and component manufacture

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

Other products

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

Business Segment Data

	Custom-designed production		Other production		Elimination		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
	€ 1,000	€ 1,000	**€ 1,000**	€ 1,000	**€ 1,000**	€ 1,000	**€ 1,000**	€ 1,000
Sales								
External sales	13,660	11,493	181	466	0	0	13,841	11,959
Intercompany turnover	10	21	80	0	-90	-21	0	0
Total	**13,670**	**11,514**	**261**	**466**	**-90**	**-21**	**13,841**	**11,959**
Result								
Segment result	2,165	1,216	36	-64			**2,201**	1,152
Interest revenue/ expense							**-138**	-268
Income tax							**-45**	-18
Currency earnings/ losses							**-531**	-154
Minority interests							**-3**	8
Profit							**1,484**	**720**
Assets								
Segment assets	14,213	13,230	441	403			**14,654**	13,633
Latent tax claims							**39**	22
Tax refund claims							**12**	213
Sum of assets							**14,705**	**13,868**
Debts								
Segment debts	1,818	2,203	172	167			**1,990**	2,370
Latent tax liabilities							**249**	261
Short-term loans							**664**	1,027
Tax liabilities							**654**	178
Long-term interest-bearing loans							**1,367**	1,697
Contributions of dormant partners							**0**	383
Sum of debts							**4,924**	**5,916**
Other information								
Investments	471	756	3	3			**474**	759
Depreciation	1,262	1,186	12	22			**1,274**	1,208
Other expenditure not affecting payments	108	1.056	5	5			**113**	1,061

(2) Geographical segments

Sales	**2004**	2003
	€ 1,000	€ 1,000
Germany	11,634	10,123
Europe	1,172	824
Israel	13	8
USA	1,022	1,004
	13,841	**11,959**

Assets	**2004**	2003
	€ 1,000	€ 1,000
Germany	13,931	13,001
USA	731	632
Segment assets	**14,662**	**13,633**

Investment	2004	2003
	€ 1,000	€ 1,000
Germany	465	757
USA	9	2
	474	759

29. Transactions between affiliated companies and persons

(1) Transactions with associated companies/ persons

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

a. the sale, during the 2003 business year, of goods on a considerable scale at market prices to Dr. Johannes Heidenhain GmbH, anassociated company which in turn sold its complete block of shares in SIS during the 2004 business year and thus ceased to be an associated company. Prior to that, the turnover with Dr. Johannes Heidenhain GmbH was worth € 390,000.

b. a contract dtd. July 20/24, 1995 under which BayBG Bayerische Beteiligungsgesellschaft mbH acquired a share of € 383,000 in SSO as a typical dormant equity holding. This led to expenditure in the form of interest, consulting and dividends worth € 35,000 in 2004 and € 46,000 in 2003.

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

c. Allowances under management contracts with associated persons.

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

	2004	2003
	€ 1,000	€ 1,000
Trade debtors	0	189
Deposits of silent partners	0	383
	0	572

The trade debtors relate exclusively to deliveries from the group to Dr. Johannes Heidenhain GmbH.

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

	2004 Allowances	2003 Allowances
	€ 1,000	€ 1,000
Allowances paid under management contracts		
	1,014	903

No options for SIS shares were granted to members of the Managing Board and directors of subsidiaries in 2004 under the share option plan (2003: 55,500). During the 2004 business year, 46,000 options were exercised, of these 15,000 for an issue price of € 5.27, another 15,000 for an issue price of € 6.39, and 16,000 for an issue price of € 4.11. Total options held by members of the Managing Board and directors of subsidies on the balance sheet date thus amounted to 91,000 (2003: 137,000). A new board member has a performance-oriented pension commitment, while the group pays into contribution-oriented schemes for two other members, see Note 15.

30. Financing instruments

Financial risk management

The group is active on an international level which exposes it to market risks from changes in currency exchange rates. In addition, it obtains funding from bank loans which entail interest-rate risks. The company sees no substantial effect from these risks on the group's income and financial situation and has therefore not engaged in business involving the transfer of property as security. Foreign exchange risks are reduced by the independent operating activity of PSS.

Liquidity risks

The group seeks to have sufficient cash and equivalent, or irrevocable credit lines, at its disposal with a view to meeting its obligations in the years to come. It has access to credit lines worth € 1,350 (2003: € 842) and authorized capital totaling € 3,375,000 (2003: € 3,375,000) for future capital increases.

Non-payment risks

These and the risk of a contracting partner failing to pay are countered by loan commitments, credit lines and monitoring procedures. Where reasonable, the company obtains security in the form of titles to securities or concludes general compensation agreements. The maximum non-payment risk is equal to the amounts of financial items activated in the balance sheet.

Interest-rate risks

Loans extended to the company have fixed interest rates and entail interest risks which may affect the value of the loan. The risk is, however, not seen as substantial.

Current value

Current value estimated

The group's financial instruments which are not shown at current value primarily include cash and equivalent, trade debtors, accounts payable, other liabilities, current account credits and long-term loans.

The book value of cash, equivalent and current account credits comes quite close to their current value because of short terms.

In the case of receivables and debts characterized by normal commercial credit terms, the book value which is based on historical costs is also quite close to the current value.

The current value of long-term debts derives from interest rates applicable to raising outside capital with identical payability and credit rating profiles. The current value of outside capital presently varies very little from its book value.

31. Other notes as provided for by HGB

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

Members of the Executive Board

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

Members of the Supervisory Board

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

Other Supervisory Board seats:

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

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

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

Memberships in comparable supervisory bodies:

- Hottinger Baldwin Messtechnik GmbH, Darmstadt

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

Ernst Hofmann, Wiesbaden
Business consultant

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

Other Supervisory Board seats:

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

Memberships in comparable supervisory bodies:

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

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

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

Shareholdings subject to a duty of disclosure in compliance with section 41, sub-section 2 (1) of the German Securities Trading Act (WpHG)

SIS AG received the following notifications pursuant to section 41, sub-section 2 (1) of the German Securities Trading Act (WpHG) in the financial year and published them in compliance with section 41, sub-section 3 and section 25, subsection 1 of the German Securities Trading Act (WpHG):

"Notification under § 21 para. 1 WpHG was given by KDV (Kapitalbeteiligungsgesellschaft der Deutschen Versicherungswirtschaft AG) of Düsseldorf/ Germany that its voting rights in Silicon Sensor International AG of Berlin/ Germany dropped below the threshold of 5 % on Aug. 31, 2004 to a percentage of 4.3 %."

"We received the following notification from Dr. Johannes Heidenhain GmbH, in its letter of 05 Februar 2004 :
Notification pursuant to section 21, subsection 1 of the German Securities Trading Act (WpHG)
"This is to inform you pursuant to § 21, para. 1 WpHG that our percentage of voting rights in Silicon Sensor International AG dropped below the thresholds of 10% and 5% on Feb. 5, 2004."

„Invision Asset Management AG of Zug/Switzerland reported pursuant to § 21 para. 1 WpHG that Hitech Premium N.V., De Ruyterkade 62 Willemstad/Curacao, a fully owned subsidiary of Mach Hitech AG, a holding company listed at the Swiss stock exchange and administered by Invision, had acquired over 5 % of the capital stock of Silicon Sensor International AG. Voting rights in Silicon Sensor International AG exceeded the threshold of 5 % on Jan. 21, 2005 and stand at 5.06 %."

„Deutsche Bank AG, Frankfurt, Germany, announced after § 21 (1) WpHG to the managing board of Silicon Sensor International AG the take over of more then 5 per cent of Silicon Sensor International AG share capital on March 2, 2005, by FPM Funds SICAV, 2 Boulevard Konrad Adenauer, L-1115 Luxemburg, Luxemburg. FPM Funds SICAV possesses 6.1 per cent of Silicon Sensor International AG share capital."

Workforce

Average number of staff during 2004 business year:

	2004	2003
	€ 1,000	€ 1,000
Germany	98	97
Other countries	4	4
	102	**101**

Consolidated subsidiaries

Company	**Headquarters**	**Core activity**	**Interest share**
Silicon Sensor GmbH	Berlin	Semiconductor sensor development/ manufacture/ distribution	100 %
Lewicki microelectronic GmbH	Ober-dischingen	Manufacture/ distribution of microelectronic components/ modules	100 %
Pacific Silicon Sensor, Inc.	Westlake Village, USA	Development/ manufacture/ distribution of sensor systems, distribution of sensor chips	100 %
Silicon Projects GmbH	Berlin	Development/ manufacture/ distribution of soft/ hard-ware, Internet services	80 %
Silicon Instruments GmbH	Berlin	Development/ manufacture/ distribution of radiation sensor modules/ equipment	70 %

32. Corporate Governance

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

Berlin, March 15, 2005

Silicon Sensor International AG
The Executive Board

Dr. Bernd Kriegel Dr. Hans-Georg Giering

Auditors Report

We have issued the following opinion on the consolidated financial statements and the Group management report:

"We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements, prepared by the Board of Directors of Silicon Sensor International AG, Berlin, for the fiscal year from January 1, 2004 to December 31, 2004. The preparation and the content of the consolidated financial statements are the responsibility of the Company's executive board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with the International Financial Reporting Standards (IFRS), based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by the IDW ["Institut der Wirtschaftsprüfer in Deutschland": Institute of Public Auditors in Germany] as well as in accordance with the International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatement. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with IFRS.

Our audit, which also extends to the Group management report prepared by the executive board for the fiscal year from January 1, 2004 to December 31, 2004, has not led to any reservations. In our opinion, on the whole the Group management report together with the other disclosures in the consolidated financial statements provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the Group management report for the fiscal year from January 1, 2004 to December 31, 2004 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the Group management report in accordance with German law.

Berlin, March 23, 2005

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft

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

Internal statement

Officers held the following (individual) shares in the company on the Dec. 31, 2004:

Dr. Hans-Georg Giering	15,000	(Dec. 31, 2003:	11,000)

Under SOP 2001 and SOP 2002 no stock options were granted to members of the Managing Board and directors/staff of affiliated companies during the 2004 business year.

They were distributed as follows:

	2004	2003	
Members of the Management Board	0	28,500	share options
CEOs	0	27,000	share options
Employees	0	27,000	share options

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

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

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

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

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

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

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

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

Berlin, March 2005

Silicon Sensor International AG

The Executive Board The Supervisory Board

Report of the Supervisory Board

The 2004 financial year was both eventful and prosperous for the Silicon Sensor group. It was characterized by business expansion in affiliated companies despite unfavorable macroeconomic conditions. There were also changes in shareholder composition, along with efforts to improve cooperation between subsidiaries and develop business in North America. Particularly gratifying is the steep growth in the group's profitability and operating cash-flow, and the very good performance of the company's shares.

During the period under review, the Supervisory Board has kept abreast of business developments in the group and its subsidiaries and found conformity with regulations throughout. Four joint meetings were held with the Executive Board to discuss basic company policies and future strategies for growth and international expansion. In addition, individual members talked to the Executive Board on many occasions.

The consolidated statement and annual report, and the annual accounts and annual report as per Dec. 31, 2004 have been audited by Ernst & Young AG Wirtschaftsprüfungsgesellschaft Berlin and certified without qualification. The related documents have been submitted to the Supervisory Board, examined and discussed in detail at a meeting to approve the balance sheet held by the Board on March 23, 2005 and attended by the statutory auditors. The financial statement has been approved by the Supervisory Board and thus become final. The Board has taken note of the consolidated statement and made no objections.

The Board would like to thank the Executive and all employees for their willingness to serve and the above-average results achieved, and wishes them the best of success in meeting the challenges of the 2005 business year. Special thanks go out as usual to shareholders, both old and new, who have displayed confidence in the company in a difficult economic environment and continue to do so today.

Berlin, March 2005

The Supervisory Board
Silicon Sensor International AG

Dr. Michael Altwein
Chairman