

# SILICON SENSOR INTERNATIONAL AG



## BUSINESS REPORT

for the first three months  
of the 2005 business year  
(unaudited)

2005

# BUSINESS REPORT I/2005

## SILICON SENSOR GROUP

### *Financial ratios Jan. 01 – March 31, 2005 (first quarter 2005)*

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	<b>March 31, 2005</b> <i>TEuro</i>	<b>March 31, 2004</b> <i>TEuro</i>	<b>Change in</b> <i>TEuro</i>	<b>% Change</b>
Sales revenue	<b>3,362</b>	3,500	-138	-4
Back orders	<b>7,258</b>	8,046	-788	-10
EBITDA	<b>864</b>	864	0	0
EBIT	<b>644</b>	590	54	9
Three-month surplus	<b>469</b>	408	61	15
Three-month surplus €/individual share certificate	<b>0.20</b>	0.18	0.02	11
Share	<b>2,317,500</b>	2,250,000	67,500	3
R&D expenditure	<b>142</b>	162	-20	-12
Staff (March 31)	<b>99</b>	102	-3	-3



## Forword

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### *Silicon Sensor again raises quarterly earnings*

*Dear Shareholders and business partners,*

*the Silicon Sensor Group showed stable development in the first quarter of 2005. Compared to the same period last year, this quarter's sales revenue of EUR 3.36 million remained almost constant (March 31, 2004: EUR 3.5 million).*

*EBITDA of EUR 864,000 (March 31, 2005) was also constant (March 31, 2004: EUR 864,000). The operating result EBIT increased by EUR 54,000 from EUR 590,000 (March 31, 2004) to EUR 644,000 (March 31, 2005), an increase of 9%. Earnings after interest and taxes amounted to EUR 469,000, up EUR 61,000 from EUR 408,000 in the same quarter last year (March 31, 2004). Earnings per share for the period under review were EUR 0.20, up EUR 0.02 from last year (March 31, 2004: EUR 0.18). More dynamic increases in earnings were impeded by the introduction in 2005 of IFRS accounting standards, which require that employee stock option programs be taken into account in calculating net earnings. The resulting impact has reduced this quarter's earnings per share by about EUR 0.01.*

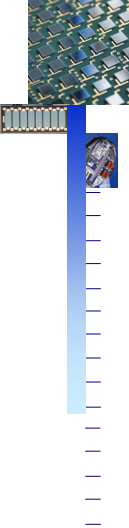
*Since ongoing negotiations with new major customers in this quarter have not yet been brought to a successful conclusion, they are still not reflected by the backlog of orders. Thus, the backlog of orders fell only 10% from the previous year's figure of EUR 8.05 million on March 31, 2004 to EUR 7.26 million on March 31, 2005. Oral negotiations will soon be successfully concluded however and the backlog will be increasing. In the current business year our top priority will be laying the foundations for future growth. In light of the anticipated increase in future sales, a new sensor production plant in Berlin is being planned. The sensor plant is scheduled to launch production in 2007. The number of employees, 99 as of March 31, 2005, hardly changed in comparison to the same period last year (March 31, 2004: 102).*

*Production activities focus on tailor-made products that often entail a good deal of development. Other areas of focus continue to be customer-specific sensor solutions and hybrid circuits.*

### *Business development*

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*The Silicon Sensor group is specialised manufacturer of opto-electronic sensors (photodetectors) for the recognition and measurement of alpha-, beta-, gamma-, X-ray, UV radiation, visible light and NIR radiation. The Silicon Sensor group furthermore develops and produces highly reliable customer-specific hybrid circuits and microsystem technology products. The corporation's customers include well-known companies and research institutes which outsource their highly specialised production processes due to their strategic orientation and manufacturing technology.*



*Products of the Silicon Sensor Group are important basic components for applications in all conceivable fields. Silicon Sensor group has thus simultaneously made itself highly independent of the economic cycles affecting individual sectors. The market environment for these high-end products is generally assessed as being favourable and future growth potential is regarded as positive.*

*The Silicon Sensor group is one of the technology leading companies in the world which develop and produce optical and electronically high-end solutions for this market. The avalanche photodiodes (APD) and avalanche photodiode arrays developed and produced by the Silicon Sensor group have assumed a top international position. Our customers use APDs, for example, in high-precision distance meters for an extremely wide variety of applications.*

*The positive operating cashflow is the guarantee for further growing. At the same time the Silicon Sensor Group endeavour has been made for an active Investor Relations work.*

*According to planning for the coming business years, it can be assumed that additional growth is certain. The group's liquidity planning is based on continued growth in turnover and positive operating cash flows associated with this growth. The Managing Board currently regards liquidity as sufficient for attaining our ambitious growth goals.*

## *Foreign developments*

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*Following the expansion of the Silicon Sensor group's market share in Europe, the greatest growth potential for the future lays in the American and Asian markets. The development of Pacific Silicon Sensor Inc. has been pursued according to plans in order to gain a larger foothold on these markets and to further cultivate the company's degree of internationalisation. The organic growth that we have already achieved confirms that the products of the Silicon Sensor Group are also meeting with growing acceptance in the US market. We plan to build up our US sales organization with the aim of further expanding our market share in the USA. The necessary measures are currently being prepared. As a result of this, we do not anticipate any marked improvement in the earnings of Pacific Silicon Inc. during this business year. However, we do expect a continual increase in the contribution to earnings from the USA in subsequent years.*

## *Personnel*

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*Silicon Sensor Group had a total of 99 employees at the end of the quarter. The number of employees has therefore hardly changed in comparison to the same period last year (102 employees at the end of the first quarter of 2004).*

## Prospects

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*The SIS group is positioned as an important specialist supplier of specific customer with high-quality parameters on the market for optical sensors. The group expects stable developments in turnover and profits. We expect that all our subsidiaries will generate profits. In the current business year our top priority will be laying the foundations for future growth. Due to our investments in the future like building up additional sales capacities in order to ensure organic growth and because of major projects being delayed, we expect growth results to be achieved in subsequent years and earnings for the current business year to be slightly decreasing. In light of the anticipated increase in sales, a new plant is being planned for extended sensor production in Berlin. The new sensor plant is scheduled to launch production at the end of 2007. The Board of Directors nevertheless believes that these measures are essential for the future development of the Silicon Sensor Group.*

*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. However, past experience shows that the extent of these risks also depends on the development of the international economic and political frameworks.*

*The emphasis of growth will remain on sensor technology in future as well due to its multifunctional industrial application. The company's development competence is the basis for the recognised high product quality in up-market optoelectronic problem solutions.*

Berlin, May 2005

The Managing Board  
Silicon Sensor International AG

  
Dr. Bernd Kriegel

  
Dr. Hans-Georg Giering

# CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2005 (IAS)

<b>Assets</b>	<b>March 31, 2005 € 1,000</b>	<b>March 31, 2004 € 1,000</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	3,196	903
Short-term investments	499	0
Trade accounts receivable	1,408	1,726
Inventories	3,338	3,781
Prepaid expenses and other current assets	291	488
<b>Total current assets</b>	<b>8,732</b>	<b>6,898</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	4,333	5,030
Intangible assets	118	163
Goodwill	1,846	1,807
Deferred taxes	29	26
Other assets	22	23
<b>Total non current assets</b>	<b>6,348</b>	<b>7,049</b>
<b>TOTAL ASSETS</b>	<b>15,080</b>	<b>13,947</b>
<b>Liabilities and shareholders' equity</b>		
<b>CURRENT LIABILITIES</b>		
Short-term debt	616	625
Trade accounts payable	203	369
Advance payments received	129	133
Accrued expenses	197	204
Income tax payable	773	0
Other current liabilities	941	1,519
<b>Total current liabilities</b>	<b>2,859</b>	<b>2,850</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt	1,166	1,481
Pension accrual	242	240
Accrued expenses	49	51
Deferred tax liability	246	258
Deferred revenues	243	332
Contributions of silent partnerships	0	383
<b>Total non-current liabilities</b>	<b>1,946</b>	<b>2,745</b>
<b>MINORITY INTEREST</b>	<b>3</b>	<b>4</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	6,953	6,750
Additional paid-in capital	3,418	3,061
Translation reserve	-206	-200
Retained earnings	107	-1,263
<b>Total shareholders' equity</b>	<b>10,272</b>	<b>8,348</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>15,080</b>	<b>13,947</b>

# CONSOLIDATED INCOME STATEMENTS

FOR THE FIRST THREE-MONTHS 2005 (IAS)

	<i>Jan. 01. - March 31, 2005</i> € 1,000	<i>Jan. 01. - March 31, 2004</i> € 1,000
Revenues	3,362	3,500
Other operating income	68	103
Changes in inventories of finished goods and work in progress	119	-105
Production of own fixed assets capitalized	31	22
Cost of purchased materials and services	-921	-747
Personnel expenses	-1,220	-1,306
Depreciation and amortization on intangible assets, and plant and equipment	-220	-274
Other operating expenses	-575	-603
<b>OPERATING INCOME</b>	<b>644</b>	<b>590</b>
Interest income and expense	-19	-53
<b>RESULT BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>625</b>	<b>537</b>
Income tax	-156	-114
<b>RESULT BEFORE MINORITY INTEREST</b>	<b>469</b>	<b>423</b>
Minority interest	0	-15
<b>NET INCOME / LOSS</b>	<b>469</b>	<b>408</b>
Basic earnings per share	0.20	0.18
Number of shares used for the calculation of basic earnings per share (in thousand)	2,318	2,250
Diluted earnings per share	0.20	0.18
Number of shares used for the calculation of diluted earnings per share (in thousand)	2,318	2,250

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE FIRST THREE-MONTHS 2005 (IAS)

	<i>Jan. 01. - March 31, 2005</i> € 1,000	<i>Jan. 01. - March 31, 2004</i> € 1,000
<b>CONSOLIDATED PROFIT</b>	<b>644</b>	590
Depreciation of intangible assets and property, plant and equipment	220	274
Depreciation of current assets	-24	-1
Earnings from allowance	0	0
Losses from fixed assets retirements	10	-2
Changes in assets not allocable to investing- or financing activities	-575	-458
Changes in liabilities not allocable to investing or financing activities	81	-216
Paid interest	-34	-55
Paid taxes	-29	0
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>293</b>	<b>132</b>
Investments in intangible assets and property, plant and equipment	-140	-71
Payment of short-term security investments	-499	0
Proceeds from the disposal of intangible assets, property, plant and equipment	0	0
Proceeds from government grants	2	1
Interest	15	2
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>	<b>-622</b>	<b>-68</b>
Proceeds from issuance of share capital	0	0
Repayment of loans	-249	-216
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-249</b>	<b>-216</b>
Net effect of currency translation in cash and cash equivalents	-6	-10
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-584</b>	<b>-162</b>
Cash and cash equivalents at beginning of year	3,780	1,065
<b>Cash and cash equivalents at the date of March 31</b>	<b>3,196</b>	903



## CHANGE IN EQUITY

FOR THE FIRST THREE-MONTHS 2005

	Number of shares '000	Share Capital € 1,000	Reserves € 1,000	Translation Reserve € 1,000	Retained Earnings € 1,000	Total € 1,000
<b>Dec. 31, 2003</b>	<b>2,250</b>	<b>6,750</b>	<b>3,061</b>	<b>-1,671</b>	<b>-188</b>	<b>7,952</b>
Three-month surplus				408		408
Net effect of currency					-12	-12
<b>March 31, 2004</b>	<b>2,250</b>	<b>6,750</b>	<b>3,061</b>	<b>-1,263</b>	<b>-200</b>	<b>8,348</b>

	Number of shares '000	Share Capital € 1,000	Reserves € 1,000	Translation Reserve € 1,000	Retained Earnings € 1,000	Total € 1,000
<b>Dec. 31, 2004</b>	<b>2,318</b>	<b>6,953</b>	<b>3,216</b>	<b>-187</b>	<b>-204</b>	<b>9,778</b>
Option scheme prev. Y.s			175	-175		0
Option scheme 2005			27			27
Three-month surplus				469		469
Net effect of currency					-2	-2
<b>March 31, 2005</b>	<b>2,318</b>	<b>6,953</b>	<b>3,418</b>	<b>107</b>	<b>-206</b>	<b>10,272</b>

# SILICON SENSOR INTERNATIONAL AG – GROUP NOTES TO BUSINESS REPORT

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FOR THE FIRST THREE MONTHS OF THE BUSINESS YEAR 2005

## *1. General*

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Silicon Sensor International AG, Berlin (hereinafter - SIS, the Company) and its subsidiaries are involved in developing, producing and marketing of custom-designed optical sensors. Within the SIS several subsidiaries operate as individual business units in the market. Pacific Silicon Sensor Inc. is involved in the marketing of sensor chips and sensor systems in North America and Asia. Silicon Projects GmbH handles the IT-support of the group. The average number of employees in the Group in the third quarter of the business year 2005 reduced from 102 to 99.

The registered office address of the Group is located at Ostendstr. 1, Berlin, Germany.

The object of SIS is the development, the production and the marketing of custom-designed optical sensors as well as the participation in companies.

## *2. Consolidated financial statement in accordance with art. 292a paragraph 1 and 2 german commercial law*

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SIS has used the right in Art. 292a Paragraph 1 and 2 German Commercial Law to state a consolidated financial statements for the SIS-Group in accordance with International Accounting Standards IFRS (*International Financial Reporting Standards*, as of December 2002).

## *3. Summary of significant accounting policies*

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The principal accounting policies adopted in preparing the financial statements of SIS are in accordance with the Annual Report for the year 2004.

## 4. Notes to cash flow statements

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SIS shows cash flow from current business activities in accordance with IAS 7 "Cash flow statement" using the indirect method where profit or loss for the period under review is adjusted to the effects of transactions in which no payment was effected, the delimitation of the inflow/outflow of funds from ongoing business activities in the past or in future, and income or expense items related to the cash flow from investment/financing activity. Contrary to the previous year, translation was based on the operating result so that interest and tax payments were shown as separate items within the operating cash flow.

## 5. Contingent liabilities

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(1) Various legal actions and claims are pending or may be asserted in the future against Group companies from litigation and claims incident to the ordinary course of business. Related risks have been analysed as to likelihood of occurrence. Although the outcome of these matters cannot always be ascertained with precision, Management believes that no material liabilities are likely to result.

(2) Contingent liabilities furthermore result out of the rent of offices and office equipment, as well as from the operating lease of cars. The contingent liabilities split up as follows:

*As of December 31, 2004*

	2005	2006 - 2008	as of 2009
	€ 1,000	€ 1,000	€ 1,000
Rent and lease	371	630	0
Premium-oriented pension plans	137	411	1,082
	<b>508</b>	<b>1,041</b>	<b>1,082</b>

*As of March 31, 2005*

	4-12/2005	2006 - 2008	as of 2009
	€ 1,000	€ 1,000	€ 1,000
Rent and lease	268	630	0
Premium-oriented pension plans	110	440	1,182
	<b>378</b>	<b>1,070</b>	<b>1,182</b>

## 6. Segment reporting

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This is provided on the following basis:

### *(1) 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.

### *(2) 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.

	Custom-designed production		Other production		Consolidated	
	March 31, 2005	March 31, 2005	March 31, 2005	March 31, 2003	March 31, 2005	March 31, 2004
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Sales	3,351	3,388	11	112	3,362	3,500
Profit	517	358	-48	50	469	408

## *Internal statement*

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Officers held the following (individual) shares in the company on the March 31, 2005:

Dr. Hans-Georg Giering	0	(Dec. 31, 2004: 15,000)
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