SILICON SENSOR

International AG

BUSINESS REPORT FOR THE YEAR 2002

SILICON SENSOR INTERNATIONAL AG

Silicon Sensor International AG

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Business report 2002
for the Silicon Sensor Group

Financial ratios October 01, 2002 – December 31, 2002 (IV. quarter 2002)

	Oct. 02- Dec. 31, 2002 TEuro	Oct. 01- Dec. 31, 2001 TEuro	Change in TEuro	% Change
Sales revenue	2,819	2,941	-122	-4
Back orders	8,776	11,223	-2,447	-22
EBITDA	280	627	-347	-55
EBIT	114	351	-237	-68
Three-month surplus	-49	400	-449	-112
Three-month surplus €/ individual share certificate	-0.02	0.19	-0.21	-110
Share	2,250,000	2,050,000	200,000	10
R&D expenditure	161	218	-57	-26
Staff (31.12.)	108	115	- 7	- 6

Financial ratios Jan. 01, 2002 – Dec. 31, 2002 (twelf-months report 2002)

	Jan. 01, 2002 - Dec. 31, 2002 TEuro	Jan. 01, 2001 - Dec. 31, 2001 TEuro	Change in TEuro	% Change
Sales revenue	11,546	10,680	866	8
Back orders	8,776	11,223	-2,447	-22
EBITDA	1,857	1.748	267	15
EBIT	739	648	79	12
Twelf-month surplus	335	418	126	20
Twelf-month surplus €/ individual share certificate	0.16	0.22	0.04	18
Share	2,100,000	1,872,500	227,500	12
R&D expenditure	931	867	64	7
Staff (31.12.)	108	115	- 7	- 6

Foreword

by the Management Board

Silicon Sensor stay on solid growth course – positive result confirms group strategy.

Dear shareholders,
Dear business partners,

The Silicon Sensor groups attained a solid growth tempo in the business year 2002, despite the fact that overall economic framework conditions have continued to worsen since the end of the business year. We are able to report positive business performance. As compared to the same time period in the previous year, turnover rose by 8 % from € 10.68 mn to € 11.55 mn.

The consolidated result was strengthening by additional growth in the application field (Silicon Instruments GmbH Berlin) and expansion in the U.S.A. (Pacific Silicon Sensor Inc.).
EBITDA rose by 6 % from € 1.748 mn (Dec. 31, 2001) to € 1.857 mn (Dec. 31, 2002). The operating result EBIT increased by 14 % from € 648,000 (Dec. 31, 2001) to € 739,000 (Dec. 31, 2002). Earnings after interest and taxes were diminished by 20 % from € 418,000 (Dec. 31,2001) to € 335,000 (Dec. 31,2002). Earnings per share totalled Euro 0.16 during the reporting period, diminished by Euro 0.06 as compared to the same time period in the previous year (Dec. 31, 2001: Euro 0.22).

Based on incoming orders in the U.S.A., it appears likely that the American subsidiary will be able to make a first positive contribution to the consolidated result in the current business year.

Despite the perceptible difficulties several of our customers are having in riding out the currently weak market environment and dealing with declines in turnover of in some cases up to 40 %, the group's orders on hand decreased only by 22 % from € 11.22 mn to € 8.77 mn. The wide range of sectors from which Silicon Sensor group's customers stem had a positive effect. At the same time, it is also evident that the current reluctance to invest among some of our customers is making it

necessary to postpone the delivery of their products. For the Silicon Sensor group, this automatically also means a postponement in the delivery of their products in later quarters.

Production activity has retained its focus on customer-specific products, in some cases with a very high development share. The main areas of focus continue to be avalanche photodiodes, customer-specific sensor solutions and hybrid circuits.

The new procedure for through-connecting of photodiodes (thermo-migration), developed by our group, was crowned by the construction of a second-generation thermomigration facility. The further developed facility very satisfactorily passed additional tests in the reporting period. The positive results strengthen our confidence that it will be possible to provide the larger quantities of products demanded by the market within the current business year. However, the completion of safety routines to protect plant operators was more difficult and took longer than expected so that production may not begin until the third quarter of the current business year.

The necessary conditions for continued solid growth of the Silicon Sensor group were created in the reporting period. The Managing Board expects growth impetus from the optical communication, safety technology and medical technology sectors as a result of intensive new order negotiations with well-known customers.

Simultaneously with the submission of the operating figures, the Management Board would like to use this opportunity to express its thanks and recognition to all employees for their ideas and reliable dedication for the prosperity of the Group. We would also like to thank the Supervisory Board members for their constructive accompaniment of all our business matters and their advice on all the strategic foundations for ensuring a continued successful development of the Group.

Not least, the involvement and dedication of our shareholders in the far-reaching decision-making processes for the future of the Sensor Silicon Group is also a good reason for our thanks to be expressed at the end of a successful year.

Berlin, March 2003

The Managing Board
Silicon Sensor International AG

Dr. Bernd Kriegel Dr. Hans-Georg Giering Dr. Edmund Rickus

Business development

The Silicon Sensor group is specialised manufacturer of opto-electronic sensors (photodetectors) for the recognition and measurement of alpha-, beta-, gamma-, X-ray, UV 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.

The company is active on the market for opto-electronic sensory products. These products 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 world’s leading companies which develop and produce exceptional quality high-end sensors for this market. The avalanche photodiodes (APD) and avalanche photodiode arrays recently developed and produced by the Silicon Sensor group have assumed a top international position in terms of quality and speed. Our customers use APDs, for example, in high-precision distance meters for an extremely wide variety of applications.

The securing of necessary liquidity for Silicon Sensor group’s growth has played a key role since the foundation of the company. We have also made significant progress in this area. Operating cash flow has been further improved. The operating cash flow increased by 94 % in the period of review. The liquidity increased in the first nine months by 122 % from € 372,000 (Dec. 31, 2001) to € 825,000 (Dec. 31, 2002). In addition, continued efforts at improving the cost structure through the utilisation of synergies between the individual subsidiaries were made during the report period. Clear progress was achieved in this area in the first nine months and will be further pursued during the course of the business year.

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

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. In keeping with our expectations, the American subsidiary increased its turnover by 83 % as compared to the same time period in the previous year from € 393,000 (Dec. 31, 2001) to € 720,000 (Dec. 31, 2002), despite the difficult market environment. This organic growth is proof of increasing acceptance of the Silicon Sensor group's products on the American market. In keeping with planning, we continue to strive to attain the break-even point with the American subsidiary in the first half year 2003.

Personnel

The success of the SIS group is attributable to the extensive expertise of our employees and more than 30 years' experience in the development and production of optical high-end sensors and highly reliable hybrid circuits. In addition to the motivation of employees, the hiring of new, qualified employees is a key success factor in achieving the realisation of future economic development.

The number of personnel employed by the Silicon Sensor group at the end of the quarter sank to a total of 108 employees (115 persons were employed at the end of the business year 2001) as a result of the full utilisation of synergies between the subsidiary companies.

Prospects

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 growth in turnover and profits in all its subsidiaries. We expect the strongest increase in turnover and profits to be generated by Pacific Silicon Sensor Inc. and Silicon Instruments GmbH Berlin. Our other subsidiaries will also generate profits, however, so that we plan to end 2003 with an improved consolidated result as compared to 2002.

During this business year Silicon Sensor GmbH will create the necessary conditions to expand production capacity at its Berlin location.

Due to the future developments of our corporation as outlined here as well as the results attained in the first three months the business year 2003, we expect another increase in overall turnover and result for 2003 as compared with 2002 despite the difficult general economic situation.

The market significance of the Silicon Sensor group will be further reinforced in 2003 and the existing expertise used as a strategic success factor for achieving continual growth in turnover and profits.

The Silicon Sensor group’s dependence on several main customers was significantly lessened through the broadening of the customer base in the past two business years. The expansion of our market presence in the U.S.A. and Asia will furthermore help compensate fluctuations in demand and dependencies on large customers on the European market in the mid-term future. Risks posed by overall economic development are to be minimised through the newly launched business divisions.

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 opto-electronic problem solutions.

Berlin, March 2003

The Managing Board
Silicon Sensor International AG

Dr. Bernd Kriegel Dr. Hans-Georg Giering Dr. Edmund Rickus

Management report

Group Management Report and Management Report of Silicon Sensor International AG for the Financial Year 2002

- ***Sales increase of 8 % from € 10.68 to € 11.55 mn***
- ***EBIT up 14 % from € 648,000 to € 739,000***
- ***Earnings before tax rise by approx. 76 % from € 211,000 to € 371,000***
- ***Operating cash flow increases***
- ***Worldwide demand for customer-specific electronic sensors brings additional growth***
- ***Development of new sensor modules***
- ***Successful marketing of Handheld Gamma Finder***
- ***Further development of (NIR) Infrared Avalanche photo - diode technology***
- ***Sound sales and profit growth anticipated in 2003***

Accounting procedures

The Silicon Sensor Group has prepared its financial statements in accordance with the guidelines of Deutsche Börse AG and insured comparability with data supplied by international companies to suit International Reporting standards IFRS (Dec. 2002).

General economic environment

The general development of the market is characterized by weak economic growth rates worldwide.
Even though optical engineering is considered a key technology of the 21st century, suppliers in the industry have felt the impact of sluggish data reported around the globe. VDI, the association of German engineers, has described the utilization of light as a promising market. Some 15% of all manufacturing jobs are presently related to optical engineering in one way or another. The Fraunhofer Institut für Physikalische Messtechnik (IPM) at Freiburg has estimated that 30 % of what are now electronic technologies will in future be replaced by optical processes. And while this is one of the factors contributing to the dramatic decline in chip sales (processors, memories) suffered by the semiconductor industry, there are no signs of a similar drop in the field of high-end optical sensors.

The Management Board believes that the trade in custom-designed high-end sensors as supplied by SIS will contrast favorably with general market trends because these niche products give customers an opportunity to develop and manufacture more innovative applications.

Sales

Continuous sales growth

Group sales rose by 8% from € 10.68 mn (in 2001) to € 11.55 mn (2002). All the subsidiaries in the Group's core business participated in this sales growth. The only exception was Silicon Sensor GmbH where a shift of orders to the following business year led to a slight drop in sales. Lewicki microelectronic GmbH achieved the best result since its establishment in 1967. Silicon Instruments GmbH Berlin reported the biggest rise in sales after starting to market its Handheld Gamma Finder. As an internal IT service provider within the Group, Silicon Projects GmbH stabilized its sales on the previous year's level, as anticipated.

Silicon Sensor GmbH (- € 0.518 mn; -10 %)
Lewicki microelectronic GmbH (+ € 0.735 mn; +15 %)
Pacific Silicon Sensor Inc. (+ € 0.294 mn; +67 %)
Silicon Instruments GmbH Berlin (+ € 0.443 mn; +298 %)
Silicon Projects GmbH (+ € 0.02 mn; +3 %)

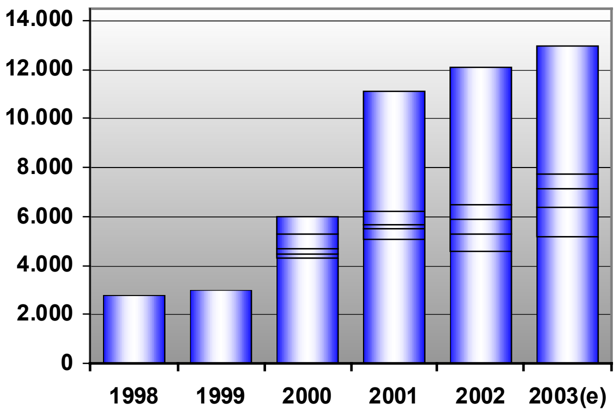
Total sales of the Silicon Sensor Group prior to consolidation in € 1,000

Sales growth (prior to consolidation) in € 1,000

SALES in € 1,000 1)	1999	2000	2001	2002	2003(e)
Silicon Sensor	2,974	4,296	5,084	4,566	5,200
Pacific Silicon Sensor	0	166	439	720	1,200
Silicon Instruments	25	245	149	592	750
Silicon Projects	0	554	562	581	600
Lewicki Microelectronic	0	731 2)	4,901	5,636	5,200
Total	**2,994**	**5,992**	**11,135**	**12,095**	**12,950**

1) unconsolidated

2) allowance made for proportional share only in 2000



Earnings

Structure of the consolidated statement of income

TEuro	2002	% of Total Output	2001	% of Total Output
Sales	11.546	96 %	10.680	87 %
Total output	**12.021**	100 %	**12.274**	100 %
Cost of materials	-3.364	28 %	-3.073	25 %
Gross margin	**8.657**	72%	**9.201**	75 %
Personnel expenses	-4.645	39 %	-4.763	39 %
Depreciation & amortization (fixed assets, goodwill)	-1.118	9 %	-1.100	9 %
Other expenses	-2.155	18 %	-2.686	22 %
Operating income	**739**	6 %	**652**	5 %
Financial and investment income/expenses	-356	-3 %	-441	-4 %
Consolidated income before tax	**371**	3 %	**211**	2 %
Income taxes	-31	0 %	206	2 %
Loss attributable to minority interests	-5	0 %	1	0 %
Consolidated net income	**335**	3%	**418**	3 %

The concern result before income taxes developed extremely positively in the fiscal year. Proportional personnel costs and depreciation remained approximately at previous year's levels. Pre-tax group performance more than doubled as a result of reducing miscellaneous operating expenditure through consistent cost management, by utilizing

synergistic effects in the interaction of group companies and by improving financial results.

With no allowance made for non-recurring effects, net earnings per share (€ 0.16 as of Dec. 31, 2002) were 27 % below those reported for the previous year (€ 0.22).

Investments

Total investments of approximately € 0,8 mn were made in the Group in 2002. The investment ratio therefore was almost 7 %.
Investments mainly related to the extension of the production basis, the development and erection of a second generation thermo-migration plant, and quality assurance in order to achieve growth objectives while taking account of the requirements of risk management systems and the ability to maintain the appropriate quality of product deliveries and services at all times despite substantial growth rates.

Acquisitions

Additional acquisition negotiations were conducted in 2002. Silicon Sensor was therefore looking for synergistically compatible companies in order to be able to expand its position further on the sensor market in the long-term. The starting point for further acquisition considerations was the successful integration of Lewicki microelectronic GmbH and the related positive effects for the expansion of its market position in the fiscal year 2002.

The Silicon Sensor share

Contrary to the previous business year, Silicon Sensor stock prices showed no positive trend and thus were in good company with the DAX and NEMAX. The performance of the Silicon Sensor share was approximately -53 % in 2002 based on the average Xetra.

The share reached its highest closing rate (€ 9.22) on March 26, 2002, one day before the 2001 press conference. The unsettled situation on the market and general profit-taking resulted in the share subsequently falling to an all-time low of € 2.34 on Dec. 17, 2002.

The performance of the SIS share essentially followed the Benchmark NEMAX ALL SHARE which also lost about half of its value in 2002.

It is the opinion of the Management Board that the Silicon Sensor share is underrated in comparison with the stock of the group's international competitors.

The capital increase in fiscal 2002 increased the number of shares to 2,250,000 (Dec. 31, 2001: 2,050,000 shares). The average number of shares in 2002 was 2,100,000. Trade with the Silicon Sensor share also showed an extremely positive trend. For example, an average 12,500 shares were traded on every stock exchange day in the report period (2001: 11,700).

Key share figures (Xetra)

	12/31/ 2002	12/31/ 2001	12/31/ 2000
Share price	3,45 Euro	7,32 Euro	6,75 Euro
Number of shares	2.250.000	2.050.000	1.700.000
Earnings per share	0,16 Euro	0,22 Euro	- 0,86 Euro
KGV	22	33	n.a.
KUV	0,67	1,41	2,14
Freefloat	754.500	685.500	750.630

The fact that Silicon Sensor International AG is quoted in the Prime Standard of Deutsche Börse will ensure consistent and transparent reporting to shareholders.

Group Financing

Consolidated cash-flow statement

The development of cash flow was as follows in comparison with the previous year:

€ 1,000	2002	2001	Change
Operative cash flow	**775**	399	+376
Cash flow from investment activities	-445	-963	+518
Cash flow from financing activities	129	659	+530
Change in liquid funds	453	105	+348
Liquid funds at the beginning of the year	372	267	
Liquid funds at the end of the year	825	372	

The operating cash flow was repeatedly improved in comparison with the previous year. In total, cash flow movements were only slightly positive, however, on account of financing requirements, especially Pacific Silicon Sensor Inc. together with the high investment ratio and the repayment of bank liabilities. The Management Board is anticipating a further increase in the operating cash-flow in the current fiscal year.

Low liquid funds - liquidity assured

The volume of liquid funds increased by € 453,000 in comparison with the end of the previous year. Based on the forecasts for the following years, it may be assumed that further growth is secured. The Group's liquidity forecasts envisage a further increase in sales and the related positive operational cash flow combined with additional equity and external capital measures. It is assumed in the forecast that it will be possible to align the repayment of the external capital with the proposed equity capital measures.
The Management Board is presently of the opinion that the Group's liquidity is sufficient to achieve the ambitious sales growth proposed.

Balance sheet structure in 2002

The capital stock shown in the balance sheet as subscribed capital was € 6,750,000 on the accounting date, Dec. 31, 2002. It is made up of 2,250,000 individual share certificates with a calculated nominal value of € 3.00. Changes in the capital stock of SIS can be shown as follows:

	Stammaktien (ausgegeben und eingezahlt) (in Tausend)		Betrag des Grundkapitals (in TEUR)	
	2002	2001	**2002**	2001
January 01	**2,050**	1,700	**6,150**	4,346
Capital increase				829
Issue of new shares	**200**	350	**600**	975
December 31	**2,250**	2,050	**6,750**	6,150

A resolution adopted by the General Meeting on June 18, 2002 authorized the Management Board, subject to the consent of the Supervisory Board, to increase the company's capital stock once or several times by a total of up to € 3.075.000 over a period ending June 17, 2007 by issuing new individual share certificates made out to bearer (authorized capital). In view of this authorization the Management Board resolved, with the consent of the Supervisory Board given on Aug. 28, 2002 to increase the company's capital stock in exchange for cash deposits to € 600,000 by issuing 200,000 new individual share certificates made out to bearer. Together with the premium, the company thus accrued a total of € 0.9 mn. The capital increase was entered in the commercial register on Sept. 30, 2002.
As a result, authorized capital amounted to € 2.475,000 as per Dec. 31, 2002.

The balance sheet total diminised by € 0.13 mn (1 %) on the balance sheet date to € 14.5 mn. Equity capital rose by € 1.1 mn on the balance sheet date to € 7.3 mn (2001: € 6.2 mn). This is equivalent to an equity capital ratio of 50 % (2001: 42 %). The Silicon Sensor Group had liquid funds of € 825,000 on the balance asset date (2001: € 372,000).

Employees

A total of 108 staff were employed in the worldwide Silicon Group as of Dec. 31, 2002 compared with 115 on Dec. 31, 2001, of whom 6 were abroad and 102 in Germany.

Product development

The basic philosophy of the Group is based on customized products. The Silicon Sensor Group is a technology-oriented service provider in a high-tech environment.
In addition to customized development projects, Silicon Sensor GmbH also carried out further development work on the technology for NIR epitaxy avalanche photo-diodes (APD). NIR APDs will contribute most the growth in the coming years.

The company worked on thermomigration with considerable success and also improved the array technology.

In addition to numerous customized projects for medical. airline and aerospace applications, Lewicki microelectronic GmbH also pressed ahead with special development work on safety systems.

Application-friendly system modules for avalanche photodiodes, position-sensitive photodiodes and wavelength-sensitive photodiodes have also been developed at Pacific Silicon Sensor Inc. The Group is also concentrating on customized product development in California.
Silicon Instruments GmbH Berlin completed the development of its Handheld Gamma Finder and sold it as a package to a new cooperation partner, W.O.M. World of Medicine AG. Under the new cooperation agreement, Silicon Instruments undertakes manufacturing jobs and development projects. At the same time, it will be involved in other research projects concerned with sensor applications.

The Group spent € 0.932 mn on its own development work in 2002. This particular expense item thereby increased by 8 % in comparison with the preceding year (2001: € 0.876 mn).

Risk Management

In its national and international business activities. Silicon Sensor is confronted with a whole range of risks which are inseparably connected with its entrepreneurial activities. All our worldwide activities are being continually monitored and controlled.

The Management Board allocated the following risk principles to risk management:

- The sustainable value of the company is to be consistently increased by means of value-oriented corporate management and returns on assets are to be continually improved.

- The organization of operating procedures taking account of generally recognized rules of internal control systems are subject to the principles of decentralized management. Subsidiaries, operating divisions and specialist divisions are responsible for their own operating processes while complying with defined guidelines and specifications issued by the Management Board. Individual internal procedures are therefore shown in the documents on process standardization based on ISO and constitute the basis for internal operations and procedures.

- Silicon Sensor has its own internal strategy, planning and budgeting process for recording, evaluating, monitoring and controlling operating processes, the aforesaid being applied with effect from the beginning of 2002. This process is supported by on-going market and competition analyses together with monthly reporting. Data is reported on the order book position, the level of production and the earnings and financial position.

- In order to be able to evaluate and take action regarding cumulative risks and individual risks, a risk discussion was held between the Management Board and the Directors of the subsidiary companies on the basis of quarterly meetings. starting in 2002.

- The Group reporting and control systems ensure the provision of timely and appropriate information for all decision-makers. Operational performances are traceable at all times and changes in the general business environment are identifiable at an early stage so that counter-measures may be taken if necessary.

Risks regarding the future development of the group

The Silicon Sensor Group operates in an international environment. Risks are encountered in daily entrepreneurial activities. The Group is particularly dependent on the performance and well-being of its employees. There is a risk for the Silicon Sensor Group that the personnel capacities required for the projected growth cannot be acquired or can only be acquired at a higher cost than originally planned. This risk particularly applies to highly qualified employees.

The planned growth of the Silicon Sensor Group makes it necessary to ensure liquidity at all times. There is a risk that the liquidity of the Silicon Sensor Group will fall below a level which is not sufficient to achieve the planned sales and earnings growth if various planned developments fail to materialize. Budgeted liquidity throughout 2003 will be ensured in particular by the company's existing credit lines and an order backlog which is above previous year's levels and should produce the positive operating cash flow which has been proposed.

The overall business success of the Group continues to depend to a very large extent on the development of the young firms, Silicon Instruments GmbH Berlin and Pacific Silicon Sensor Inc. The Management Board regards the development expectations of both companies positively. The investment made to date in these companies will probably determine the growth of the Group to a very large extent in the long term. If the projected development of the aforesaid subsidiaries cannot be realized, sales and income will not reach the projected levels.

Unfavorable developments in worldwide stock markets in fiscal 2002 have also had an effect on the price of the Silicon Sensor share. There is a risk that that share price fluctuations resulting from general market trends will occur and cause the Silicon Sensor share to be undervalued. with this restricting the future financing flexibility of the Group on a sustained basis by means of equity capital measures.

Outlook

Development of market environment is very difficult to assess

The upward economic trend in the sensor technology market will probably continue across the globe in 2002. The positive trend in the development of sales in the Group will mainly be attributable to its customized structure and orientation. Potential growth will also be achieved by a further introduction onto the U.S. market in addition to the effects of the Group’s product development work.

In fiscal 2003, the Management Board is anticipating the first effects of the market for quickly growing and already broadly established free space optics on the further increase in sales by the Avalanche Photodiode Division.

The Silicon Sensor Group considers itself to be well-equipped for this market segment because significant development processes have already been achieved for this particular segment in the last few years.

Order book position

Despite the perceptible difficulties several of our customers are having in riding out the currently weak market environment and dealing with declines in turnover of in some cases up to 40 %, the group’s orders on hand decreased only by 22 % from € 11.22 mn to € 8.77 mn. The wide range of sectors from which Silicon Sensor group’s customers stem had a positive effect.

Acquisitions on a moderate level

Silicon Sensor will continue to examine and, if appropriate, press ahead with further acquisitions if necessary after having integrated the successful acquisitions. Acquisition will also be operated in future in compliance with the internal rulings within the Group for optimizing shareholder value.

Statements on future developments

Expectations for economic developments are future-oriented and based on assumptions, estimates and forecasts. In our forecasts, we have taken due account of the uncertainties in respect of future economic developments in the coming fiscal year with regard to changes in the economic environment, the development of the competitive situation, the acceptance of our products, procedures and our image ijn the market, our partial dependency on customers and suppliers, and changes in foreign currency parities insofar as these are foreseeable and predictable at the present time.

Expectations in subsidiaries

The Group is anticipating additional sales and earnings in every subsidiary. It is predicted that the highest growth rates will be achieved by Pacific Silicon Sensor Inc. and Silicon Instruments GmbH Berlin. As the other subsidiaries will also be profitable, we are therefore anticipating a marked increase in the Group's earnings in 2003 compared with 2002.

Expectation for the Group

Based on the development of our company as outlined above together with the results already achieved in the first quarter of 2003, we are anticipating a further increase in sales and earnings in the whole of 2003 in comparison with 2002. We are anticipating positive effects in our earnings from ordinary trading activities in view of the all the measures to which reference has been made above.

Berlin, March 19, 2003

Der Vorstand
The Management Board

Dr. Bernd Kriegel   Dr. Hans-Georg Giering   Dr. Edmund Rickus

Consolidated Balance sheets

as of December 31, 2002 and 2001 (IAS)

ASSETS	Note	Dec. 31, 02 TEuro	Dec. 31, 01 TEuro
CURRENT ASSETS			
CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	5	825	372
Trade receivables	6	1,339	1,250
Inventories	7	4,139	4,222
Tax assets		213	218
Prepaid expenses and other	8	244	369
Total current assets		6,760	**6,431**
NON-CURRENT ASSETS			
Property, plant and equipment	9	5,452	5,653
Intangible assets	10	260	339
Goodwill	10	2,000	2,141
Deferred tax assets	25	12	56
Other non-current assets		114	106
Total non-current assets		**7,838**	**8,295**
TOTAL ASSETS		**14,598**	**14,726**

Consolidated Balance sheets

as of December 31, 2002 and 2001 (IAS)

LIABILITIES AND EQUITY	Note	Dec. 31, 02 TEuro	Dec. 31, 01 TEuro
LIABILITIES			
Liabilities			
CURRENT LIABILITIES			
Short-term loans	13	957	1,316
Trade payables		651	779
Advance payments received		380	282
Provisions	11	201	565
Other accounts payable	12	1,158	899
Total current liabilities		**3,347**	**3,841**
NON-CURRENT LIABILITIES			
Long-term debt	14	2,681	3,093
Employee benefits obligations	15	187	435
Provisions	11	41	281
Deferred tax liabilities	25	272	285
Deferred income		364	206
Contributions of silent partnerships		383	383
Total non-current liabilities		**3,928**	**4,683**
Minority Interests		**8**	**3**
EQUITY			
Share capital	16	6,750	6,150
Reserves	17	3,061	2,761
Translation reserve		-105	14
Retained earnings		-2,391	-2,726
Total Equity		**7,315**	**6,199**
TOTAL LIABILITIES AND EQUITY		**14,598**	**14,726**

Consolidated Income Statements (IAS)

for the fiscal year 2002 and 2001

	4 th quarter 2002	4 th quarter 2001		Twelf-months report 2002	Twelf-months report 2001
	TEuro	TEuro		2002	2001
		*			*
	Oct. 01 - Dec. 31, 2002	Oct. 01 - Dec. 31, 2001	Note	Dec. 31, 2002	Dec. 31, 2001
	TEuro	TEuro		TEuro	TEuro
Ordinary activities					
Sales	2,819	2,941	18	11,546	10,680
Other operating income	44	338	19	357	503
Increase / decrease in finished goods and work-in-process	-463	247	20	-29	820
Own work capitalised	61	82		147	263
Cost of raw materials, supplies and purchased services	-659	-721	21	-3,364	-3,073
Personnel expenses	-1,074	-1,335	22	-4,645	-4,763
Depreciation and amortisation costs on intangible assets, and plant and equipement	-166	-235	9,10	-1,118	-1,100
Other operating expenses	-448	-925	23	-2,155	-2,686
Results of ordinary activities	**114**	**351**		**739**	**648**
Interest income / expenses	-93	-103	24	-356	-441
Exchange gains	9	0		9	8
Exchange losses	-21	0		-21	-4
Results before tax and minority interest	**9**	**248**		**371**	**211**
Income tax	-83	151	25	-31	206
Results before minority interest	**-74**	**399**		**340**	**417**
Minority interest	25	1		-5	1
Consolidated net profit / loss	**-49**	**400**		**335**	**418**
Basic and diluted earnings per share:	**-0.02**	**0.20**	26	**0.16**	**0.22**
Number of shares used for the calculation of basic and diluted earnings per share (in thousend)	2,100	2,050		2,100	1,873

* 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 (IAS)

for the fiscal years 2002 and 2001

	01.01.- 31.12.02 TEuro	01.01. - 31.12.01 TEuro
Operating income/loss	739	648
Adjustments to reconcile the consolidated profit / loss with cash flows from operating activities		
Depreciation of intangible assets and property, plant and equipment	1,118	1,100
Income from contributions	-136	0
Loss on the disposal of assets	5	0
Changes in provisions	-852	239
Changes in assets not allocable to investing- or financing activities	25	-1.364
Changes in liabilities not allocable to investing or financing activities	222	422
Interest payments	-346	-434
Tax	0	-212
Cash flow from operating activities	**775**	399
Investments in intangible assets and property, plant and equipment	-750	-1.302
Proceeds from the disposal of intangible assets, property, plant and equipment	5	127
Proceeds from government grants	294	206
Interest income	6	6
Cash flow from investing activities	**-445**	-963
Proceeds from issuance of share capital	900	1.711
Proceeds of loans	-771	-1.052
Cash flow from financing activities	**129**	659
Net effect of currency translation on cash and cash equivalents	**-6**	**10**
Net increase in cash and cash equivalents	**453**	**105**
Cash and cash equivalents at beginning of year	372	267
Cash and cash equivalents at end of year	**825**	**372**

Consolidated Statement of changes in equity

for the years ended December 31, 2002 and 2001

	Number of Shares in ‘000	Share Capital TEuro	Reserves TEuro	Trans-lation Reserve TEuro	Retained Earnings TEuro	Total TEuro
Balance at December 31, 2000	**1.700**	**4.346**	**2.854**	**-3.144**	**-2**	**4.054**
Increase in share capital through issue of new shares	170	435	466			901
Capital increase without issuance of new shares		829	-829			0
Increase in share capital through issue of new shares	180	540	270			810
Curreny translation differences					16	16
Net profit for the year				418		418
Balance at December 31, 2001	**2.050**	**6.150**	**2.761**	**-2.726**	**14**	**6.199**
Increase in share capital through issue of new shares	200	600	300			900
Curreny translation differences					-119	-119
Net profit for the year				335		335
Balance at December 31, 2002	**2.250**	**6.750**	**3.061**	**-2.391**	**-105**	**7.315**

Notes to consolidated financial statements

for the year ended December 31, 2002

1. General

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 and the internet presentation of the group. The average number of employees in the Group in 2002 increased by 61 to 115. 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

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 2001). The differences between IFRS and German Generally Accepted Accounting Standards (‘GAAS’) concerning accounting, valuation and consolidation methods mainly affect the capitalisation of start-up and business expansion expenses, of intangible assets (Goodwill), the valuation of defined benefit obligations and the accounting for deferred taxes and the valuation of pension obligations.

- IFRS does not allow the capitalization of expenditure for the commencement and expansion of business. The principles of commercial law provide for an option which the company has exercised.

- Under the principles of commercial law, initial consolidation in the process of acquiring companies is subject to simplification rules as far as its date is concerned, whereas IFRS uses the purchase date. This leads to differences in the current value of assets and debts on the date of initial consolidation, and in goodwill.

- Under applicable IFRS rules, pension reserves should be valued according to the "Projected Unit Credit Method". German commercial law provides for a methodical option which, among other things, permits the use of a special write-off procedure as far as taxation is concerned. This leads to differences in the amount of pension reserves. In addition, there are different provisions regarding the treatment of actuarial profits and losses, budget amendments, office hours spent during past accounting periods, and budget assets.

- IFRS shows specific financing instruments at current value in the balance sheet, whereas the principle of unequal treatment of losses and income applies in German commercial law.

- IFRS converts foreign currency debtors and creditors at the market price on the reporting date. Allowance for currency gains and losses resulting from conversion is made in a way which affects current results in the profit and loss statement. Under German commercial law, the minimum value principle applies to debtors and the maximum-value method to creditors.

3. Summary of significant accounting policies

The principal accounting policies adopted in preparing the financial statements of SIS are as follows:

General

The attached consolidated financial statement is based on IFRS. There were no effects to be taken into consideration when applying IAS 19 (2002).

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost convention, except that certain financial instruments are stated at their fair value.

Full application of IFRS for the first time

The accompanying financial statements are prepared in accordance with the International Accounting Standards as the primary basis of accounting for the first time.

Reporting Currency

The financial statements are prepared in Euro (‘EUR’).

Principles of Consolidation

The consolidated financial statements of the Group include SIS and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the balance sheets and income statements, respectively.

The purchase method of accounting is used for acquired businesses. Companies acquired during the year are included in the consolidated financial statements from the date of acquisition.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of the consolidated companies have been prepared at the date of the consolidated financial statement. In the case of a first –year consolidation the basis for the consolidation has been a interim financial statement.

Cash and Cash Equivalents

Cash includes cash on hand and cash with banks.

Inventories

Raw materials are carried at the lower of cost or market. Cost is determined by the first-in first-out method. Work in progress and finished goods are carried at the lower of production costs or market. Production costs include direct labor costs, material costs and the allocable portion of
production overhead. Obsolete or slow-moving items are adequately provided for.

Receivables

Receivables are shown at cost after value adjustment for doubtful debts.

Financial Instruments

Liquidity Risks

Liquidity risk arises from the possibility that customers may not be able to settle obligations to the Company within the normal terms of trade. To manage this risk the Company periodically assesses the financial viability of customers. Liquidity risk arises from the possibility that a market for derivatives may not exist in some circumstances.

Credit Risks

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Where appropriate, the corporation obtains collateral in the form of rights to securities or arranges master netting agreements.

The company uses IAS 39, Financing instruments: estimate and valuation. Financial assets are therefore divided into the following categories: (a) financial investments to be held until final maturity, (b) financial assets maintained for trading purposes, and (c) financial assets available for disposal. Financial assets with defined or determinable payment and fixed terms which the company intends to, and is able to, hold until final maturity, with the exception of debtors extended by the company, are classified as financial investments to be held until final maturity. Financial assets acquired mainly to realize a profit from short-term price/stock exchange fluctuations are classified as held for trading purposes. All other financial assets, with the exception of credits and debtors, are classified as available for sale.

Financial investments to be held until final maturity are shown in the balance sheet under long-term assets except for those falling due within 12 months from the balance date. Financial assets held for trading purposes are shown in the balance sheet under current assets. Financial assets available for sale are shown as current assets if the management intends to sell them within 12 months from the balance date. Purchases/sales of financial assets are shown in the balance sheet on the trading day.

When a financial asset is shown in the balance sheet for the first time, it is valued at initial costs corresponding to the current value of the service rendered in return; conversion charges are included.

Financial assets available for sale and held for trading purposes are estimated in the following at current value without deducting possible conversion costs based on their quoted market price on the balance date.

Property, Plant and Equipment

Property, plant and equipment, are stated at cost less accumulated depreciation and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the

accounts and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

Buildings	25 years
Technical equipment, plant and machinery	4-10 years
Other equipment, fixtures, fittings and equipment	1-10 years

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Intangible Assets

The SIS Group records for an intangible asset if the asset is:

(a) Controlled by the company as a result of past events; and

(b) From which future economic benefits are expected to flow to the enterprise.

In accordance with IAS 38 the SIS Group recognizes an intangible asset at cost if, and only if:

(a) It is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and

(b) The cost of the asset can be measured reliably.

This applies whether an intangible asset is acquired externally or generated internally. Intangible assets are recorded at cost less any accumulated amortization and any accumulated impairment losses. In accordance with IAS 38 intangible assets are amortised on a systematic basis over the best estimate of its useful life. The useful life of an intangible asset does not exceed twenty years from the date when the asset is available for use. Amortization commences when the asset is available for use. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

(1) Software

Cost of acquisition of the new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight line basis over 3 years.

(2) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life. The amortisation period reflects the best estimate of the period during which future economic benefits are expected to flow to the enterprise.

The amortisation period is determined at the time of the acquisition based upon the particular circumstances and amounts from 5 to 20 years. The unamortised balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognised.

(3) Research- and Development Costs

No R & D costs have been capitalized because related conditions were not met. R & D costs registered in a way which affects expenditure amounted to €923,000 in 2002 and €867,000 in 2001.

Operating Lease

Leases of assets under which substantially all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an expense on a straight-line basis over the lease term.

Reserves

Provisions are recorded for liabilities of uncertain timing or amount in accordance with IAS 37. A provision is recognised when, and only when:

(a) The company has a present obligation (legal or constructive) as a result of a past event;

(b) It is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) A reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, in other words, the amount that the company would pay to

settle the obligation at the balance sheet date or to transfer it to a third party at that time.

Contingent liabilities which arise from possible obligation from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of the company; or a present obligation that arises from past events but is not recognised because

(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(b) the amount of the obligation cannot be measured with sufficient reliability

are disclosed as contingent liabilities, unless the possibility of an outflow of resources embodying economic benefits is remote.

No indirect liability will be disclosed if there is only a limited probability of company resources which are economically useful being drained.

Long-term reserves will be discounted if there is an essential effect.

Benefits for employees

Benefit-oriented plans

The Group provides pension schemes for three members of the Management Board. The finance available for this purpose is valued every year by approved independent actuaries. To determine pension obligations and expenditure, the company uses the "projected unit credit method" which assumes that each year of service earns an employee an additional part of the eventual benefit entitlement. Each of these benefit modules is valued separately and adds up to the final obligation. When a new plan is introduced or an existing one improved, office hours to be offset in addition will be distributed across the board over the average period until the expectancies which have been affected by the change in plan become non-forfeitable. Where expectancies are non-forfeitable immediately after introducing or changing a plan, the office hours to be offset in addition will be reported immediately. Profits/losses from reducing/discharging pension benefits will be reported at the time of the reduction/discharge in a way which affects the current result. Actuarial profits/losses will be shown as receipts in a way affecting the current result. Pension obligations are determined at the cash value of estimated future cash flow using a discount rate close to the interest rate on government bonds which correspond, in currency and term, to the currency and term of the benefit-oriented obligation.

Premium-oriented plans

In addition to the benefit-oriented plans above, SSI also finances premium-oriented plans. These are pension commitments of inter-company pension funds to which the company pays fixed monthly contributions. Premiums paid by the Group for premium-oriented plans are offset in a way affecting results in the year to which they relate.

Currencies

(1) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised in the income statement in the period in which they arise.

(2) Foreign Entities

All of the foreign consolidated subsidiaries of SIS are regarded as foreign entities since they are financially, economically and organisationally autonomous. Their reporting currencies are the respective local currencies. Financial statements of foreign consolidated subsidiaries are translated at year-end exchange rates with respect to the balance sheet, and at exchange rates at the dates of the transactions with respect to the income statement. All resulting translation differences are included in a translation reserve in equity.

Stock options

Staff and management have been given options on company common stock. On the day when the subscription right is granted, staff costs which constitute the difference between stock prices and option prices are determined.

Government Grants

Government grants are deferred and amortised into income over the period necessary to match them with the related costs that they are intended to compensate. Grants received are treated as deferred income in the accompanying financial statements. Income relating to government grants is recognised as a deduction from the appropriate expense.

Revenue

Revenues are recognised in accordance IAS 18 when all of the following conditions have been satisfied:

a) SIS Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
b) SIS Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;
c) The amount of revenue can be measured reliably
d) It is probable that the economic benefits associated with the transaction will flow to the enterprise; and
e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In accordance with the matching principle in IAS 18 revenue and expenses that relate to the same transaction or other event are recognised simultaneously.

Income Taxes

The income tax charge is based on profit for the year and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognised regardless of when the timing difference is likely to reverse.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. SIS Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised.

Deferred tax liabilities have not been provided on undistributed earnings of foreign subsidiaries to the extent that the earnings are intended to remain indefinitely invested in those entities. A deferred tax

liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from goodwill for which amortisation is not deductible for tax purposes.

Impairment of Assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income for items of property, plant and equipment and intangibles carried at cost and treated as a revaluation decrease. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Segments

Business segments: for management purposes the Group is organised on a world-wide basis into two major operating businesses. Financial information on business and geographical segments is presented in Note 29.

Subsequent Events

Post-year-end events that provide additional information about the company's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Date of authorization of issuance

On March 19, 2003, the management of SIS authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include other outside interests. The financial statements are made available to shareholders and others on March 27, 2003. The annual meeting of shareholders receives the financial statements on June 25, 2003.

4. Changes in group's organisation

On May 21 2002, SIS sold 36% of his common stock (36,000 shares) of Pacific Silicon Sensor Inc., USA ('PSS Inc.') retroactive. After this transaction the company holds 85 % (85,000 shares) of the common stock of PSS Inc. By virtue of an agreement with the buyer, the Company has still the power over more than one half of the voting rights and therefore according to IAS 27 controls PSS Inc.

5. Liquide Mittel

	2002	2001
Check	**71**	200
Cash	**8**	4
Cash in bank	**746**	168
	825	**372**

6. Trade receivables - net

	2002	2001
Accounts receivable	**1.357**	1.264
Less provision for doubtful accounts	**-18**	- 14
	1.339	**1.250**

7. Inventories

	2002	2001
Finished products and goods at sale value, net	**175**	231
at initial and manufacturing costs	**705**	779
Subtotal	**880**	1.010
Semi-finished goods at sale value	**267**	330
Net at manufacturing costs	**2.193**	2.043
Subtotal	**2.460**	2.373
raw materials and consumables at initial costs	**799**	839
Total	**4.139**	**4.222**

8. Prepaid expenses and other current assets

	2002	2001
Prepaid expenses	**186**	221
Turnover tax refund claim	**4**	121
Other	**54**	27
	244	369

9. Property, plant and equipment at cost - net

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures, fittings and equipment	Construc-tion in Progress	2002 Total	2001 Total
Cost						
Jan. 01, 2002	3.398	3.887	2.718	686	**10.689**	9.705
Additions	0	514	59	125	**698**	1.172
Disposals	0	10	8	0	**18**	188
Foreign currency translations	0	-24	-33	0	**-57**	0
Dec. 31, 2002	3.398	4.367	2.736	811	**11.312**	10.689
Accumulated Depreciation						
Jan. 01, 2002	995	2.309	1.732	0	**5.036**	4.355
Depreciation for the year	111	511	228	0	**850**	795
Disposals	0	0	8	0	**8**	114
Foreign currency translations	0	-10	-8	0	**-18**	0
Dec. 31, 2002	1.106	2.810	1.944	0	**5.860**	5.036
Net book value	**2.292**	**1.557**	**811**	**811**	**5.452**	5.653

Technical equipment, plant and machinery as well as other equipment, fixtures, fittings and equipment of SSO is pledged as a collateral for a loan.

10. Intangible assets

	Software	Goodwill	2002 Total	2001 Total
Cost				
Jan. 01, 2002	583	2.324	**2.907**	2.832
Additions	52	0	**52**	130
Disposals	0	0	**0**	55
Foreign currency translations	-4	0	-4	**0**
Dec. 31, 2002	631	2.324	**2.955**	2.907
Accumulated Depreciation				
Jan. 01, 2002	244	183	**427**	124
Depreciation for the year	127	141	**268**	305
Disposals	0	0	**0**	2
Dec. 31, 2002	371	324	**695**	427
Net book value	260	2.000	**2.260**	2.480

Acquired intangible assets are capitalised with their acquisition cost.

The Goodwill as of December 31, 2001 results from the consolidation of Lewicki microelectronic GmbH, Oberdischingen (hereinafter – 'LME'). In 2000 SSO acquired 100% of the shares of LME. As the purchase price exceeded the equity portion of LME, SIS shows the exceeding amount as Goodwill in their balance sheets. SIS amortizes this goodwill over 15 years.

11. Provisions

	Person-nel related	Warranty	Other	Total
December 31, 2001	**49**	**396**	**401**	**846**
Provisions made during the year	0	89	105	194
Provisions reversed during the year	1	5	231	237
Provisions used during the year	48	276	237	561
December 31, 2002	**0**	**204**	**38**	**242**
Current portion of provisions	0	163	38	201
Non-current portion of provisions	0	41	0	41
December 31, 2002	0	204	38	242

The recorded warranty provision, set up t repair or replace faulty products, is based on the sales volume and past experience.

12. Other accounts payable

	2002	2001
VAT	**125**	237
Wage and church tax	**57**	99
Income tax	**511**	322
Wages and salaries	**85**	87
Liabilities relating to social security	**0**	0
Other	**380**	154
	1.158	**899**

13. Short-term loans and current portion of long-term debt

	2002	2001
Secured		
Bank loan at 8,00 %	**299**	0
Bank loan at 8,25 %	**370**	1.106
Bank loan at 8,75 %	**288**	0
Total secured loans	**957**	**1.106**
Unsecured		
Loan at 7%, maturing in 2002	**0**	210
Total short-term loans	**957**	**1.316**

The unsecured loan relates to a shareholders' loan of founding member Dr. Bernd Kriegel.

Short term dept are secured by inventories in sum of Euro 2.357 mn.

14. Long-term debt

	2002	2001
Secured		
Bank loan at 6,90% interest rate maturing in 2005	**556**	718
Bank loan at 5,60% interest rate maturing in 2009	**1.700**	1.900
Bank loan at 5,00% interest rate maturing in 2009	**425**	475
	2.681	3.093

The credit agreements for bank loans with interest rates of 5.60 % and 5.00 % were altered with regard to their terms in 2002. The year of final maturity was brought forward from 2011 to 2009.

Long-term loans are secured by pledging interests in LME and by a registered land charge. The net book value of the assets and debts of LME in the consolidated statement is € 4,720,000. The land charge is € 1,380,000.

15. Employee benefit obligations

The company has made a pension commitment to a member of the Managing Board. Another board member has waived an existing commitment. Benefits depend on years of service and on related salaries. Provisions for pensions/benefits to be paid out are made in the form of old age, disability and death benefits. The pension reserve for the commitment mad by the company was determined with the Projected Unit Credit Method based on actuarial principles.

The amount of expected pension obligations shown as liabilities in the balance sheet was €187,000 on the balance day, Dec. 31, 2002 (previous year: €435,000).

Pension expense, which is included in personnel expense, is comprised of the following:

	2002	2001
Current expenditure of office hours	**27**	54
Registered actuarial net profits	**-50**	0
Interest cost on obligations	**21**	23
Income from waivers of existing commitments	**-246**	23
Sum of pension expenditure (income)	**-248**	77

The movements in the liability recognised in the balance sheet were as follows::

	2002	2001
Net liabilities at beginning of year	**435**	358
Pension expenditure recorded in profit and loss statement	**-248**	77
Net liabilities at year's end	**187**	**435**

Principal actuarial assumptions used to determine pension obligations as of December 31, 2002and December 31, 2001 were as follows:

	2002 %	2001 %
Discount rate	**6,0**	5,0
Wage and salary increases	**2,0**	1,5

In accordance with Paragraph 41 of IAS 19 the company recognises its rights under an insurance policy as an asset because the policy is held by the enterprise itself.

The fair value of the insurance claim as of December 31, 2002 amounts to € 33,000 and is shown within other non-current assets on the balance sheet.

Apart from payments of €243,000 made into the statutory pension scheme (2001: €252,000) the company also made payments into premium-oriented plans for three board members of SIS AG amounting to €172,000 (2001: €113,000).

Share Option Plan

Stock option plans drawn up for 2001 („SOP 2001“) and 2002 („SOP 2002“) granted options on ordinary shares to staff and the Management Board of the SIS Group. The exercise price per share was the market price of stocks at the Frankfurt Stock Exchange over a period of five days prior to granting the options. The maximum term for an option is 5 years.

The stock options have a lock-up period of 2 years before the option is exercisable. The exercise of the option underlies the following conditions:

(a) As a condition for exercising option rights, the related hurdle must have been reached at least once over a period ("window") of 6 weeks prior to exercise. This is the case if the closing price for a company share in XETRA trading (or a comparable follow-up system) exceeds the exercise price by more than 10% on five consecutive trading days (SOP 2001, SOP 2002) and if the performance of a company share over the period from granting specific stock options until the beginning of the exercise window in question exceeds the average performance of all shares in the NEMAX ALL SHARE Index (or a comparable follow-up index) by at least 5 % over the same period. (SOP 2001)

(b) option rights may not be exercised within two weeks before the announcement of quarter results and not in the time from the financial year end up to the announcement of the results of the expired financial year ("waiting periods"). This is also applied if in the waiting periods an exercise window opens.

During the 5-year-term of the share option plan, 120,000 subscription rights can be given maximally. The subscription rights can be called in annual portions by maximally 33 1/3 %. In 2000 no options, 2001, 40.000 options were granted to employees and to the management. The issue price of EUR 5,27 was below the average market rate of the SIS shares during the last 5 days before the share issue of the granting of the share options. By that the shares had no positive intrinsic value at the date of issue.

No. of options	Year of issue	Issue price
40.000	2001	5,21
40.000	**2002**	**6,39**
42.500	**2002**	**4,11**

16. Share capital

The share capital as of December 31, 2002 amounts to TEUR 6.150 and consists of 2.050.000 shares in the clerical value of EUR 3. The movements in registered share capital are as follows:

	Common Shares (issued and paid up) (thousands)		Amount of share capital (TEUR)	
	2002	2001	**2002**	2001
January 1	**2.050**	1.700	**6.150**	4.346
Capital increase				829
Capital increase without Issuance of new shares	**200**	350	**600**	975
December 31	**2.250**	2.050	**6.750**	6.150

Management Board, with the consent of the Supervisory Board, resolved on Aug. 28, 2002 to increase the company's capital stock, against cash contribution, by €600,000 through the issue of 200.000 new individual share certificates made out to bearer. The capital increase was entered in the commercial register on Sept. 30, 2002. Thus the authorized capital amounted to €2,475,000 as of Dec. 31, 2002.

The General Meeting on June 18, 2002 also adopted a resolution for a conditional increase of the capital stock by a nominal 255,000.00 as a max. This will be implemented exclusively by the issue of a max. of 85,000 new individual share certificates made out to bearer, with participating rights from the beginning of the business year, and limited to the extent to which the owners of subscription rights issued pursuant to the 2002 stock options plan following the authorization granted on June 18, 2002 exercise these rights (contingent capital II).

In addition, the company's capital stock was conditionally increased by up to €600,000 by the issue of up to 200,000 new individual share certificates (contingent capital III). The conditional increase exclusively aims to

– grant rights for conversion into company shares subject to convertible bond stock terms should such stock be issued by Dec. 31, 2006;
– grant subscription rights for company shares subject to option terms should option bonds be issued by Dec. 31, 2006.

A conditional capital increase should be implemented only to the extent to which the owners of convertible bond stock terms option bonds exercise their conversion/option rights. The new shares will partake in profits from the beginning of the business year in which they emerge through the exercise of conversion/option rights.

The total contingent capital on the balancing date thus amounts to €1,215,000 (contingent capital I, II and III).

17. Capital reserve

The capital reserve developed in the financial year as follows:

	2002	2001
January 01	**2.761**	2.854
Capital increase without issuance of new shares	**0**	- 829
Capital increase	**300**	736
December 31	**3.061**	2.761

The share premium account results from premiums collected in the course of capital increases.

Share premium accounts may be used up to a level of 10% of the capital stock

1. for compensating a net loss provided it is not covered by a surplus brought forward from the preceding year and can not be compensated by dissolving other retained income;
2. for compensating a loss carryover from the previous year to the extent it is not settled by an annual surplus and can not be compensated by dissolving other retained income.

The part of a share premium account exceeding 10% of the capital stock may be used

1. to compensate an annual deficit where it is not covered by a surplus brought forward from the previous year;
2. to compensate a loss brought forward from the previous year where it is not covered by an annual surplus; and
3. to increase capital from company funds pursuant to §§ 207 to 220 AktG.

18. Sales

	2002		2001	
	TEUR	**%**	TEUR	%
Germany	**9.562**	**82,82**	8.831	83,00
Europe	**1.022**	**8,85**	715	7,00
Israel	**63**	**0,55**	163	1,00
USA and Asia	**899**	**7,79**	971	9,00
	11.546	**100,00**	10.680	100,00

In accordance with IAS 1 No. 77 the SIS Group structures the financial statement based on the nature of the revenues and expenses.

19. *Other operating income*

The other operating income developed in the financial year 2001 as follows:

	2002	2001
Income from grants and subsidies		
• Investment subsidies	**31**	142
• Investment grants	**105**	75
Income from public subsidies	**93**	0
Compensation of remunerations in kind	**50**	62
Income relating to other periods	**34**	37
Income from reinsurance	**33**	10
Income from the sale of shares in PSS	**0**	112
Income from the disposal of fixed assets	**0**	11
Income from reinsurance	**0**	8
Income from other operations	**0**	5
Other	**11**	41
	357	503

20. *Increase / decrease in finished goods and work-in-process*

	2002	2001
Work-in-process	**128**	647
Finished goods	**-157**	173
	-29	**820**

21. *Cost of raw materials, supplies and purchased services*

Cost of raw materials, supplies and purchased services developed as follows:

	2002	2001
Raw materials and supplies	**2.603**	2.358
Purchased Services		
• Installations	**553**	499
• Treatment of materials	**22**	104
• Implantation	**57**	54
• Other	**129**	58
All Purchased Services	**761**	715
	3.364	**3.073**

22. Personnel expenses

	2002	2001
Wages and salaries	**3.860**	3.900
Social security and other pension costs	**785**	863
	4.645	**4.763**

23. Other operating expenses

Other operating expenses include the following:

	2002	2001
Rent expenses	**294**	308
Expenses related to the preparation of interim and year-end financial statements, bookkeeping	**232**	191
Costs of dispatch of goods	**216**	244
Investor / Public relations	**174**	150
Guaranties and product liability	**167**	221
Maintenance	**166**	117
Advertising costs	**126**	137
Insurance costs	**116**	146
Leases	**105**	123
Car costs	**100**	77
Consulting and legal fees	**95**	264
Travel expenses, catering	**64**	145
Annual shareholders meeting	**52**	56
Communication costs	**45**	53
Supervisory board expenses	**19**	44
Patents	**10**	25
Exchange rate losses	**5**	0
Other	**169**	381
	2.155	**2.682**

24. Interest income and expenses

	2002	2001
Interest income	**6**	6
Interest expense on borrowings	**-362**	-447
Financial result	**-356**	**-441**

Interest income and expense come from short and long term dept.

25. Income taxes

Current tax liabilities for the current and prior years are measured at the amount expected to be paid to the tax authorities, using the tax rate and the tax laws that have been enacted or substantively enacted by balance sheet date. Deferred tax liabilities are measured at the tax rate that are expected to apply to the period when the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

	2002	2001
Current tax revenue/ expense	**-230**	765
Utilization of non-capitalized losses brought forward	**230**	-589
latent tax proceeds from the reversal of temporary trends	**-31**	30
	-31	**206**

Income tax includes the income taxes paid or payable in the respective countries as well as any deferred tax items.

Income tax is comprised of corporate income tax, trade tax on income, solidarity surcharge and the corresponding foreign tax charges. The income tax rate for the Federal Republic of Germany for paid and non-distributed earnings is 25%. In addition, the solidary surcharge on corporate income tax of 5.5% is levied on top of the assessed corporate tax and the trade tax is recognised by a surcharge of between 15.25% and 17.01% depending on the federal region.

In fiscal years 2001 and 2000 the weighted average tax rates of the Group (corporate income tax on non-distributed earnings, trade tax and solidary surcharge) used to calculate deferred taxes with 38.9%. Due to the individual income tax planning there is no evidence that at short and medium-term any essential taxable profit will be available from foreign group entities against which the unused tax losses or tax credits can be utilised. Therefore a possible effect from divergent foreign tax rates is neglected. Consequently the corresponding unused tax loss carryforward of the foreign entities have been adjusted in their full amount.

Under the Flood Relief Act, the corporation tax rate will be increased from 25% to 26.5% in 2003 for a year. There is no serious impact on the company.

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

	2002	2001
Accounting profit		212
	371	211
Tax at the applicable tax rate	**-144**	-82
Transition to expelled tax revenue/ expense		
Used tax loss carryforwards	**312**	556
Depreciation on tax loss carryforwards	**-103**	-76
Non activated losses	**-96**	-248
Tax prev. year	**0**	176
Taxation of Dividends	**0**	-120
Tax charge per statutory books	**-31**	206

The effective tax rate translates into the statutory tax rate as follows:

Deferred tax is generated in order to register all essential temporary differences between the individual accounts and the tax balance sheet, and temporary differences resulting from consolidation adjustments. In addition, deferred tax is capitalized unless there are unused losses brought forward. In past business years, taxes on the asset side for losses/losses brought forward were adjusted as a precaution. During the 2002 business year, SIS, SIN, PSS and SIP brought tax losses forward.

The following table shows the level of tax losses brought forward for individual members of the Group:

	2002	2001
SIS	**870** *	950 *
PSS	**1.315** *	1.090 *
SII	**245** *	301
SIP	**23** *	0 *
	2.453	2.341

* Estimated, because at these companies still no tax returns or assessment notices are present.

The losses of the german companies can be used without end, the losses of the PSS only appr. 20 years.

Components of deferred tax liabilities are as follows:

	January 01, 2002	Credited/ (charged) to income statement	Dec. 31, 2002
Deferred benefit obligation	56	-44	**12**
Deferred tax asset	**56**	**-44**	**12**
Land LME	285	-13	**272**
Deferred tax liability	**285**	**-13**	**272**
Net deferred tax asset	**229**	**31**	**260**

26. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders (net profit for the period less dividends on preference shares) by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding are adjusted for the effects of dilutive potential ordinary shares from exercise of share options (See Note 15). The number of ordinary shares is the weighted average number of ordinary shares plus the weighted average number of ordinary shares which would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. The options given up to now can be exercised at the earliest in 2003. Therefore, a diluted earning per share is not relevant in 2002.

	For the Year Ended 2002		
	Income	Weighted Average Number of Shares (thousands)	Earnings Per Share Amount
Net profit attributable to shareholders	335		
Basic Earnings per Share and diluted Earnings per Share			
Net profit available to common shareholders	335	2.100	**0,16**

	For the Year Ended 2001 (restated)		
	Income	Weighted Average Number of Shares (thousands)	Earnings Per Share Amount
Net profit attributable to shareholders	418		
Basic Earnings per Share and diluted Earnings per Share			
Net profit available to common shareholders	418	1.873	**0,22**

27. Notes to cash flow statements

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.

28. Contingent liabilities

(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) In 2001 the Company received an investment grant. Conditions of the grant are fulfilled if a certain amount of employees are retained. The management believes it will respect all conditions associated with the grant. 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:

	2003	2004 bis 2006	ab 2007
Rent	224	672	224
Lease	78	78	0
	302	**750**	**224**

29. Segment information

Segment information is prepared on the following bases:

(1) Business segments

Custom-designed optical semiconductor sensors and electronics

The Group in this segment essentially develops and manufactures high-end customized silicon sensors which are used in geodesy to survey the earth, and in space research to examine and monitor the blood data and circulatory functions of astronauts. In addition, chips are assembled into complex customer-specific hybrid circuits and packages.

Other product lines

This segment basically deals with clinical sensor applications for the extra- and intra-operative detection of tumor cell clusters. More particularly, the segment is built around semiconductor radiation sensors for industrial and laboratory applications, and PC measuring systems for coating thickness measurement, PET radiochemistry and dosimetry.

(2) Geographical segments

The SIS Group's activities are conducted predominantly in Germany.

Business Segment Data

	Custom-designed production		Other production		Consolidated	
	2002	2001	2002	2001	2002	2001
Intercompany turnover	30	0	0	0	0	0
Total	10.985	10.530	591	150	11.546	10.680
External sales	10.955	10.530	591	150	11.546	10.680
Result						
Segment result	483	810	256	-162	739	648
Unallocated income and expense						
Interest revenue/expense					-356	-441
Income tax					-31	206
Currency earnings/losses					-12	4
Minority interests					-5	1
Profit					335	418
Assets						
Segment assets	13.740	14.195	633	257	14.373	14.452
Latent tax claims					12	56
Tax refund claims					213	218
Sum of assets					14.598	14.726
Debts						
Segment assets	2.639	3.233	343	214	2.982	3.447
Latent tax liabilities					272	285
Short-term loans					957	1.316
Long-term interest-bearing loans					2.681	3.093
Contributions of dormant partners					383	383
Sum of debts					7.275	8.524
Other information						
Investments	746	1.278	4	24	750	1.302
Depreciation	1.084	1.064	34	36	1.118	1.100
Other expenditure not affecting payments	20	121	6	0	26	121

Geographical Segment Data

Revenues	2002	2001
Germany	**9.562**	8.831
Europe	**1.022**	715
Israel	**63**	163
USA	**899**	971
	11.546	**10.680**

Assets	2002	2001
Germany	**13.624**	13.581
USA	**749**	871
Segment assets	**14.373**	**14.452**

Investments	2002	2001
Germany	**746**	1.232
USA	**4**	70
	750	**1.302**

30. Related party transactions

(1) Related Parties

	Entity / person	Place
1	Dr. Johannes Heidenhain GmbH	Traunreut
2	Dr. Bernd Kriegel (Vorstandsvorsitzender)	Berlin
3	Dr. Hans-Georg Giering (Vorstandsmitglied)	Berlin
4	BayBG Bayerische Beteiligungsgesellschaft mbH	München

(2) Related Party Transactions

The Group has entered into a variety of transactions with its related parties. The Company enters into transactions in the normal course of business on an arm's length basis. The most significant of these transactions are as follows:

a. Sale of goods in remarkable amount at market prices to the associated company Dr. Johannes Heidenhain GmbH

b. The SIS Group payed out the unsecured loan in the high of Euro 210,000 to Dr. Bernd Kriegel.

b. By agreement of July 20/24, 1995 BWB Bayerische Beteiligungsgesellschaft mbH acquired a typical silent participation of € 383,000 in SSO. The group incurred expenses for interest, consulting and shares in profit in the amount of € 46,000 in 2001 and € 46,000 in 2002.

The balance sheet includes the following amounts resulting from transactions with related parties:

	2002	2001
Trade receivables	**330**	213
Short term loans and borrowings and current portion of long-term debt	**0**	210
Contributions of silent partnership	**383**	383
	713	**806**

(3) Remuneration paid to members of Management Board and Supervisory Board

2002	**Fixed Payment**	**Total**
Remuneration paid to members of Management Board		
Dr. Bernd Kriegel	215	215
Dr. Hans-Georg Giering	172	172
	387	**387**
Remuneration paid to members of supervisory Board		
Dr. Rudolf Scheid	5,0	5,0
Gerhard Hagenau	7,5	7,5
Edgar Most	7,5	7,5
Prof. Herbert Reichl	5,0	5,0
Dr. Hans Richter	2,5	2,5
Ernst Hofmann	2,5	2,5
	30,0	**30,0**

Remuneration paid to members of the Management Board and Supervisory Board in 2002 amounted to € 387,000 (2001: € 272,500) and € 30,000 (2001: €22,500), respectively. Under the stock option program, members of the Board of Management were granted 23,500 options on SIS stock in 2002 (2001: 13,000). This gives the Board as a whole 40,500 options. A pension commitment has been made to one Board member. In addition, payments into premium-oriented pension schemes were made for all Board members.

31. Financing instruments

Financial risk management

Some of the Group's activities are on an international scale, exposing it to market risks from exchange rate fluctuations. In addition, the company partly gets finance from bank loans, resulting in interest-rate risks. It is not assumed that these risks will have an essential impact on the Group's profits and financial situation. No hedging transactions were therefore entered into.

Liquidity risks

In order to meet commitments in the next few years, the Group's policy is one of securing sufficient amounts of cash/cash equivalents or comparable irrevocable credit lines. Available credit lines total €681,000. In addition, the company has authorized capital worth € 2,475,000 for further capital increases.

Default risks

These and the risk of a contracting party being unable to meet its payment obligations are reduced by ensuring credit undertaking, credit lines and inspections. Where appropriate, the company seeks security in the form of interests in stocks and shares, or concludes umbrella compensation agreements.

Currency risks

These derive from sales in the U.S. and Asia and resulting receivables which are subject to exchange rate fluctuations until payment is made.

Interest risks

The interest on loans obtained by the company is partly fixed and partly variable. Loans bearing variable interest involve a risk regarding the amount of future interest payments. The risks deriving from fixed-interest loans possible changes in interest rates which may affect the value of these loans. These risks are not considered essential.

Current value

Estimation of current value

Financial instruments of the Group whose current value is not shown in the balance sheet include primarily currencies and their equivalents, trade debtors, trade accounts payable, other liabilities, overdrafts and long-term loans.

Due to the short terms of these financing instruments, the accounting value of currencies and their equivalents, and of overdrafts is quite close to their current value.

In the case of receivables and debts deriving from normal commercial credits, the accounting value which is based on historical initial costs is also very close to the current value.

The current value of long-term debts derives from the listed market prices of these debts or similar financing instruments, or from currently prevailing interest rates on external capital having the same profiles as regards maturity and creditworthiness. The current value of outside capital today differs little from its accounting value.

32. *Supplementary declarations pursuant to the german commercial code*

The following information comprises supplementary declarations that are a mandatory part of the explanatory notes pursuant to the German Commercial Code:

<u>Members of the Management board</u>

Dr. Bernd Kriegel, Berlin DSc physics	*Chairman*
Dr. Hans-Georg Giering, Deuben/Berlin DSc physics	
Dr. Edmund Rickus, Ehingen DSc physics	*since January 01, 2003*

<u>Members of the supervisory board</u>

Dr. Rudolf Scheid, Swistthal Rechtsanwalt	*Chairman*
Gerhard Hagenau, Chieming Dipl. Businessman	
Edgar Most, Berlin Bank manager	

Other Supervisory Board seats:

- Aker MTW Werft GmbH, Wismar
- Peene-Werft GmbH, Wolgast
- Kvaerner Warnow Werft GmbH, Rostock/Warnemünde
- Institut für Getreideverarbeitung GmbH, Potsdam
- co.don AG, Teltow
- Kondor Wessels Deutschland GmbH & Co. KG, Berlin
- LEIPA Georg Leinfelder GmbH, Schwedt — Chairman
- Sodawerk Staßfurt GmbH & Co. KG — Chairman
- BioCon Valley GmbH, Greifswald
- Deutsche Bank Polska S.A., Warschau
- Chemieanlagenbau Staßfurt AG

Prof. Dr. Ing. Dr. E.h. Herbert Reichl, Baierbrunn
University professor

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

Ernst Hofmann, Wiesbaden
Management consultant

Number of employees

The average number of employees for the year 2002 was:

	2002	2001
Germany	**102**	110
Rest of the world	**6**	5
	108	115

List of subsidiaries consolidated

Entity	Place of Incorporation	Principal Activities	Ownership Interest
Silicon Sensor GmbH	Berlin	Development, production and distribution of optical semiconductor sensors	100.0
Lewicki microelectronic GmbH	Oberdischingen	Development and production of electronic circuits and active human implants	100.0
Pacific Silicon Sensor, Inc.	Westlake Village, USA	Development, production and distribution of optical sensor systems and distribution of optical semiconductor sensors	85.0
Silicon Projects GmbH	Berlin	Development, production and distribution of soft- and hardware, internet support	80.0
Silicon Instruments GmbH	Berlin	Development, production and distribution of modules and devices in the filed of nuclear medicine	70.0

32. Corporate Governance

The company has made a statement pursuant to § 161 AktG which is continuously accessible on the company website.

Berlin, March 19, 2003

Der Vorstand
Silicon Sensor International AG

Dr. Bernd Kriegel   Dr. Hans-Georg Giering   Dr. Edmund Rickus

Auditors Report

We have audited the consolidated financial statements of Silicon Sensor International AG as of December 31, 2002, including the consolidated balance sheet and the related consolidated statements of income, cash flows, changes in shareholders' equity and notes for the year then ended.

The legal representatives of the company are responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, whether these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

We conducted our audit in accordance with the German Auditing Rules and in compliance with the generally accepted standards of auditing prescribed by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer) and in accordance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. In establishing the audit procedures we considered our knowledge about the group's business operations, its economic and legal environment, and expectations of possible errors. An audit includes examining , on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, 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 present a true and fair view of the group's financial position, results of operations and cash flows in accordance with International Accounting Standards.

Our audit which also includes the management report for the fiscal period from January 1, 2002 to December 31, 2002 which is the responsibility of the Board of Directors has not given rise to any reservations. In our opinion the management report conveys a suitable presentation of the situation of the Company taken as a whole and presents the risks to its future developments adequately. Additionally, we confirm that the consolidated financial statements and the group's management report for the fiscal period from January 1, 2002 to December 31, 2002 meet the requirements for an exemption to prepare consolidated financial statements and the group's management report in accordance with the rules and regulations of the German Commercial Code.

Ernst & Young Revisions- und Treuhandsgesellschaft mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Selter	Glöckner
Wirtschaftsprüfer	Wirtschaftsprüfer

Berlin, March 21, 2003

Officers held the following (individual) shares in the company on the Dec. 31, 2002:

Dr. Bernd Kriegel	555,000	(Dec. 31, 2001: 655,000)
Dr. Hans-Georg Giering	10,100	(Dec. 31, 2001: 7,000)
Dr. Rudolf Scheid	2,000	(Dec. 31, 2001: 500)
Gerhard Hagenau	2,500	(Dec. 31, 2001: 2,000)

According to SOP 2001 and des SOP 2002 a total of 82.500 share options, had been emitted in 2002 to the members of the Management Board, the CEOs and employees in the associated companies.

They were distributed as follows:

	2002	2001	
Members of the Management Board	27,500	13,000	share options
CEOs	28,000	13,000	share options
Employees	27,000	14,000	share options

Report of the Supervisory Board

The year 2002 was eventful and successful for the Silicon Sensor Group. Winning new shareholders, the integration of Lewicki microelectronic GmbH, achievement of break even and the development of the U.S. business unit were the main issues for the year under review.

As regards the activities of Silicon Sensor International AG and its subsidiaries through the financial year, the Supervisory Board found the conduct of business orderly without exception. Altogether, six meetings were held with the Management Board to deal with key issues and future strategies for growth and internationalization. In addition, the Management Board talked to individual Supervisory Board members on many occasions.

Resolutions adopted by the General Meeting on June 18, 2002 brought changes in the composition of the Supervisory Board. Newly elected members were Dr. Scheid, Prof. Richter and Herr Hofmann. In the Board's first meeting after the General Meeting, Dr. Rudolf Scheid was appointed chairman and Herr Gerhard Hagenau deputy chairman. Herr Most, Herr Hagenau und Prof. Reichl continue to serve on the Supervisory Board as before.

The consolidated statement. annual report, and annual statement/report for the period ending Dec. 31, 2002 were audited by Ernst & Young Treuhand- und Revisionsgesellschaft mbH. Berlin and received an unqualified certificate. The Supervisory Board received an examined Statements for the annual and consolidated reports and status reports, all of which were discussed in detail in the presence of the auditors at the meeting held to approve the balance sheet on March 19, 2003. The annual statement has been approved and completed, and the Board has had no objections to the consolidated statement.

This is to thank the Executive Board and all employees for their efforts and above-average performance, and wish them the best of success in dealing with the challenges of the 2003 business year. Special thanks go out as usual to old and new shareholders who have placed confidence in the company at a time when capital markets were tough.

Berlin, March 2003
The Supervisory Board
Silicon Sensor International AG

Dr. Rudolf Scheid
Chairman