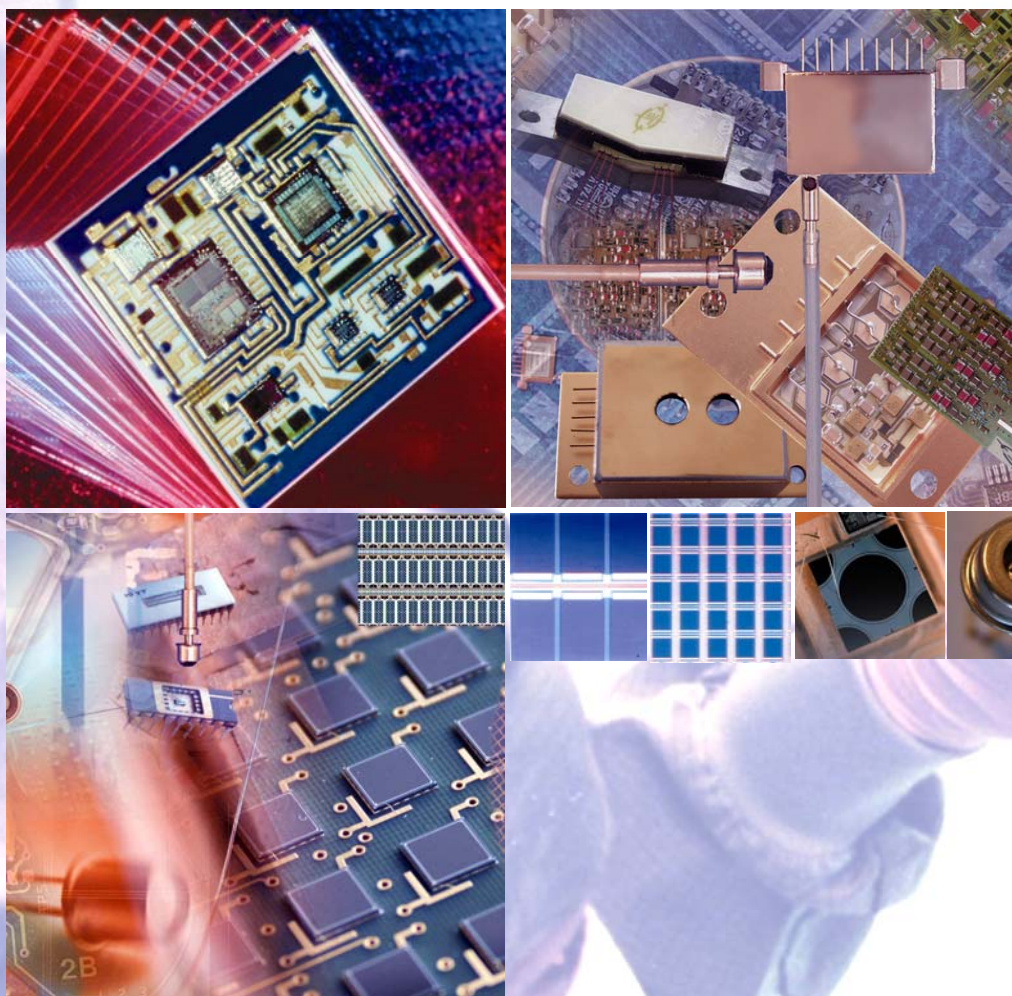


# SILICON SENSOR INTERNATIONAL AG



2006

## BUSINESS REPORT

for the first six months  
of the 2006 business year  
(unaudited)

# BUSINESS REPORT II/2006

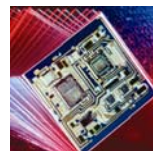
## SILICON SENSOR GROUP

### Financial ratios April 01 – June 30, 2006 (second quarter 2006)

	<b>April 01, 2006 - June 30, 2006</b> € 1,000	<b>April 01, 2005 - June 30, 2005</b> € 1,000	<b>Change in € 1,000</b>	<b>% Change</b>
Sales revenue	8,145	3,231	4,914	152
Back orders	19,008	8,005	11,003	137
EBITDA	1,795	714	1,081	151
EBIT	1,259	487	772	159
Second quarter surplus	772	320	452	141
Second quarter surplus €/individual share certificate	0.22	0.14	0.08	57
Share	3,457,900	2,317,500	1,140,400	49
R&D expenditure	1,549	128	1,421	1,110
Staff (June 30)	230	101	129	128

### Financial ratios January 01 – June 30, 2006 (first half-year 2006)

	<b>Jan. 01, 2006 - June 30, 2006</b> € 1,000	<b>Jan. 01, 2005 - June 30, 2005</b> € 1,000	<b>Change in € 1,000</b>	<b>% Change</b>
Sales revenue	15,620	6,593	9,027	137
Back orders	19,008	8,005	11,003	137
EBITDA	3,618	1,578	2,040	129
EBIT	2,558	1,131	1,427	126
Six-month surplus	1,525	789	736	93
Six-month surplus €/individual share certificate	0.44	0.34	0.10	29
Share	3,457,900	2,317,500	1,140,400	49
R&D expenditure	1,992	270	1,722	638
Staff (June 30)	230	101	129	128



## Preface

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### *Silicon Sensor on solid growth course*

*To all shareholders and business partners,*

*The Silicon Sensor group continued to grow dynamically during the 2nd quarter of the 2006 business year. Compared with the same period in 2005, sales more than doubled and reached € 15.62 mn in the first half of the year (6/30 2005: € 6.59 mn). In the 2nd quarter, sales rose by some 152 % over the year before, while quarterly surplus increased by 141 %.*

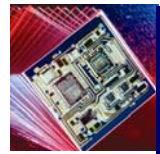
*In the first half of 2006, EBITDA grew by 129 % from € 1.578 mn (6/30 2005) to € 3.618 mn (6/30 2006) and thus more than doubled as well. EBIT operative results rose by € 1.427 mn, from € 1.131 mn (6/30 2005) to € 2.558 mn (6/30 2006), a growth rate of 126 %. The result after interest and tax improved by 93 % over the previous year, from € 789,000 (6/30 2005) to € 1.525 mn. Due to the greater number of shares after a capital increase in 2005, earnings per share over the reporting period were € 0.44, an improvement of € 0.10 over the previous year (6/30 2005: € 0.34). This welcome trend has continued into the present quarter.*

*A particularly positive development is seen in the order backlog which, for the group as a whole, grew by 137 %, to € 19.0 mn (6/30: 2006) over last year (6/30 2005: € 8.0 mn). Compared with the 1st quarter of 2006 alone, orders on hand increased by more than 46 %. Workforce size rose from 101 on June 30, 2005 to 230 at present.*

*As reported earlier, work will continue in the current business year to create the basis for future growth. The foundation stone for extending the production site at Dresden/Germany is to be laid in the 3rd quarter of 2006.*

*Now as before, manufacturing will center on customized products, some requiring massive development efforts, with the accent on custom-made hybrid ICs, and packaging and sensor solutions.*





## Business development

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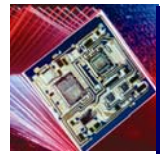
*The Silicon Sensor group is a specialist supplier of customized solutions mostly for applications using pressure, imaging and optoelectronic sensors (photodetectors) for the detection and measurement of alpha, beta, gamma and X-rays, and of UV radiation, visible light and near-infrared radiation. The group also develops and makes highly reliable customer-specific hybrid circuits and products for microsystem technology. Customers include leading industrial groups and research establishments wishing to outsource highly specialized manufacturing processes which do not fit their production patterns or strategic orientation. Products made by the group are used as basic components for the widest possible range of applications. This makes the Silicon Sensor group largely independent of the business cycles in the various industries. The market for these high-end products is generally seen as favorable, and so is the potential for further growth.*

*As one of the world's leaders in engineering, the Silicon Sensor group develops, manufactures and supplies optical and electronic high-end solutions for a very discriminating market. It has developed avalanche photodiodes (APD) and avalanche photodiode arrays which have become the first choice of users worldwide. Customers use APDs and laser modules in high-precision distance measuring systems for a variety of applications.*

*The acquisition last year of Microelectronic Packaging Dresden GmbH did not basically affect the operations of the group. Instead, MPD GmbH directly extends the group's value chain and makes it less dependent on external service providers. With over 35 years of experience in setup and linking processes for making semiconductor devices and sensors, and a proven capacity for the contract production of electronic components and modules using customized linking techniques in runs of up to several million pieces per year, the Silicon Sensor group can now open up completely new market segments in the field of series production. At the same time, MPD has added experience and skills as an automotive supplier, strengthened the group's existing business segments and will continue to do so in future. In addition, MPD is developing new approaches and applications and, in cooperation with industrial partners, has begun to create system solutions primarily for CMOS camera systems and MEMS which are intended to reduce market dependence on the rest of the industry.*

*Planning for the business years to follow indicates that future growth has been secured. Liquidity planning for the group assumes further sales growth with the related positive development in operative cash flow.*





## Foreign developments

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*After the group has secured a market for itself in Europe, the greatest potential for future growth is now in the Americas and Asia. The successful establishment of Pacific Silicon Sensor Inc. has made it possible, and promising, to seek larger penetration in these markets. The organic growth achieved so far testifies to a growing acceptance of Silicon Sensor products also in the U.S. We are convinced that the recent engagement by our subsidiary, Pacific Silicon Sensor Inc., of Mr. Mark K. Nicklas, former Vice President Sales of the direct competitor Advanced Photonix Inc., will in the long term result in clearly better market penetration and a strengthening of our position in the U.S. It is gratifying that related measures can already be financed from the operative cash flow of the U.S. subsidiary. Due to increased distribution costs, we do not expect Pacific Silicon Sensor Inc. to improve results for this business year in a big way, but instead hope to see a steadily rising contribution to operating income in the years to come.*

## Personnel

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*At the end of the quarter, the workforce of the Silicon Sensor group was more than twice that of last year due to the acquisition of MPD GmbH and now stands at a total of 230 (up from 101 at the end of the 2nd quarter 2005).*

## Outlook

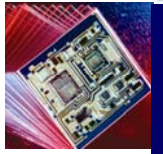
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*The Silicon Sensor Group has established itself as a specialist supplier of high-quality customized solutions in the market for optical sensors, pressure and imaging sensors and hybrid electronics.*

*The group expects stable sales and revenue in future and assumes that all of its subsidiaries will earn profits. Apart from improved turnover and earnings, the current business year will also be devoted to creating the basis for future growth.*

*The market significance of the Silicon Sensor group is expected to rise in 2006 as existing know-how is turned into a strategic success factor for continuous growth both in sales and revenue.*





*In the last two business years, the group's dependence on a few major clients was clearly reduced by widening the customer base. In addition, a beginning presence in the U.S. and Asian markets will help compensate for fluctuations in demand and the dependence on large customers in Europe in the medium term. Risks resulting from general economic development are to be minimized by branching out into new business segments.*

*With a view to multifunctional industrial applications, growth will concentrate in the field of sensors. The company's development capability is vital for the high product quality that has been achieved in creating up-market problem solutions.*

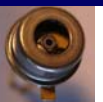
*Berlin, August 2006*

*Silicon Sensor International AG*

*The Managing Board*

*Dr. Bernd Kriegel*

*Dr. Hans-Georg Giering*



# CONSOLIDATED BALANCE SHEET

AS OF JUNE 30, 2006 (IFRS)

<b>Assets</b>	<b>June 30, 2006</b> € 1,000	<b>June 30, 2005</b> € 1,000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	4,239	3,476
Short-term investments	555	602
Trade accounts receivable	4,590	1,265
Accounts receivable from associated companies	84	0
Inventories	4,523	3,329
Tax assets	363	0
Prepaid expenses and other current assets	313	264
<b>Total current assets</b>	<b>14,667</b>	<b>8,936</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	8,850	4,267
Intangible assets	6,212	103
Equity holdings in associated companies	416	0
Goodwill	11,158	1,846
Deferred taxes	9	8
Other assets	22	23
<b>Total non current assets</b>	<b>26,667</b>	<b>6,247</b>
<b>TOTAL ASSETS</b>	<b>41,334</b>	<b>15,183</b>
<b>Liabilities and shareholders' equity</b>		
<b>CURRENT LIABILITIES</b>		
Short-term debt	2,169	567
Trade accounts payable	1,028	290
Equity holdings in associated companies	47	0
Advance payments received	130	129
Accrued expenses	331	152
Income tax payable	1,346	854
Other current liabilities	1,591	869
<b>Total current liabilities</b>	<b>6,642</b>	<b>2,861</b>
<b>NON-CURRENT LIABILITIES</b>		
Long-term debt	6,075	1,133
Accrued expenses	76	38
Deferred tax liability	2,570	242
Deferred revenues	1,317	280
<b>Total non-current liabilities</b>	<b>10,038</b>	<b>1,693</b>
<b>MINORITY INTEREST</b>	<b>1,283</b>	<b>1</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	10,374	6,953
Additional paid-in capital	10,727	3,437
Translation reserve	-232	-190
Retained earnings	2,502	428
<b>Total shareholders' equity</b>	<b>23,371</b>	<b>10,628</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>41,334</b>	<b>15,183</b>

# CONSOLIDATED INCOME STATEMENTS

FOR THE FIRST SIX-MONTHS 2006 (IFRS)

	<b>April 01 - June 30, 2006</b>	<b>April 01 - June 30, 2005</b>	<b>Jan. 01 - June 30, 2006</b>	<b>Jan. 01 - June 30, 2005</b>
	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Revenues	8,145	3,231	15,620	6,593
Other operating income	334	103	6,060	171
Changes in inventories of finished goods and work in progress	198	38	278	157
Production of own fixed assets capitalized	23	24	47	55
Cost of purchased materials and services	-2,966	-902	-5,781	-1,823
Personnel expenses	-2,656	-1,310	-4,996	-2,530
Depreciation and amortization on intangible assets, and plant and equipment	-536	-227	-1,060	-447
Other operating expenses	-1,283	-470	-7,610	-1,045
<b>OPERATING INCOME</b>	<b>1,259</b>	<b>487</b>	<b>2,558</b>	<b>1,131</b>
Interest income and expense	-54	-10	-146	-29
<b>RESULT BEFORE INCOME TAXES AND MINORITY INTEREST</b>	<b>1,205</b>	<b>477</b>	<b>2,412</b>	<b>1,102</b>
Income tax	-395	-159	-810	-315
<b>RESULT BEFORE MINORITY INTEREST</b>	<b>810</b>	<b>318</b>	<b>1,602</b>	<b>787</b>
Minority interest	-38	2	-77	2
<b>NET INCOME/ LOSS</b>	<b>772</b>	<b>320</b>	<b>1,525</b>	<b>789</b>
Basic and diluted earnings per share	0.22	0.14	0.44	0.34
Number of shares used for the calculation of basic and diluted earnings per share (in thousand)	3,458	2,318	3,458	2,318



# CONSOLIDATED CASH FLOW STATEMENT

FOR THE FIRST SIX-MONTHS 2006 (IFRS)

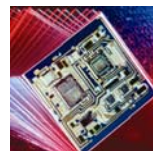
	<i>Jan. 01 - June 30, 2006</i> € 1,000	<i>Jan. 01 - June 30, 2005</i> € 1,000
<b>CONSOLIDATED PROFIT</b>	<b>2,557</b>	<b>1,131</b>
Depreciation of intangible assets and property, plant and equipment	1,060	447
Income from contributions	-159	-73
Other expenditure/ income not affecting payments	0	-38
Loss on the disposal of assets	2	1
Changes in provisions	63	-288
Changes in assets not allocable to investing- or financing activities	-1,655	-399
Changes in liabilities not allocable to investing or financing activities	636	-21
Paid interest	-230	-57
Paid taxes	-789	-41
Appreciation of current assets	0	-58
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>1,485</b>	<b>604</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments in intangible assets and property, plant and equipment	-885	-888
Proceeds from the disposal of intangible assets, property, plant and equipment	0	205
Payments for buying stocks and shares	-105	0
Payments for buying shares of subsidiaries	-401	0
Proceeds from government grants	159	73
Interest income	89	29
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-1,143</b>	<b>-581</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of share capital	0	0
Proceeds from short or long-term borrowings	0	0
Proceeds of loans	-845	-331
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>-845</b>	<b>-331</b>
<b>NET EFFECT OF CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS</b>	<b>-10</b>	<b>4</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-513</b>	<b>-304</b>
Cash and cash equivalents at beginning of year	4,752	3,780
<b>CASH AND CASH EQUIVALENTS AT THE DATE OF JUNE 30</b>	<b>4,239</b>	<b>3,476</b>

## CHANGE IN EQUITY

FOR THE FIRST SIX-MONTHS 2006 (IFRS)

	Number of shares	Share Capital	Reserves	Other Reserves	Trans- lation Reserve	Retained Earnings	Total
	'000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
<b>Dec. 31, 2004</b>	<b>2,318</b>	<b>6,953</b>	<b>3,216</b>		<b>-187</b>	<b>-204</b>	<b>9,778</b>
Option scheme prev. Y.s			174		-174		0
Option scheme 2005			47				47
Six-month surplus					789		789
Net effect of currency						14	14
<b>June 30, 2005</b>	<b>2,318</b>	<b>6,953</b>	<b>3,437</b>		<b>428</b>	<b>-190</b>	<b>10,628</b>

	Number of shares	Share Capital	Reserves	Other Reserves	Trans- lation Reserve	Retained Earnings	Minority Interests	Total
	'000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
<b>Dec. 31, 2005</b>	<b>3,458</b>	<b>10,374</b>	<b>10,919</b>	<b>-20</b>	<b>977</b>	<b>-140</b>	<b>1,381</b>	<b>23,491</b>
Exercise of share options								0
Acquisition of minority holdings							-175	-175
Issue of registered capital								0
Currency translation differences						-92		-92
Total of results registered directly in equity capital				-172				-172
Results for the period					1,525		77	1,602
<b>June 30, 2006</b>	<b>3,458</b>	<b>10,374</b>	<b>10,919</b>	<b>-192</b>	<b>2,502</b>	<b>-232</b>	<b>1,283</b>	<b>24,654</b>



# SILICON SENSOR INTERNATIONAL AG – GROUP NOTES TO BUSINESS REPORT

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FOR THE FIRST SIX MONTH OF THE BUSINESS YEAR 2006

## 1. General

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Silicon Sensor International AG, Berlin (hereinafter - SIS, the Company) and its subsidiaries are involved in developing, producing and marketing of custom-designed optical sensors. Within the SIS several subsidiaries operate as individual business units in the market. Pacific Silicon Sensor Inc. is involved in the marketing of sensor chips and sensor systems in North America and Asia. At the end of the quarter, the workforce of the Silicon Sensor group was more than twice that of last year due to the acquisition of MPD GmbH and now stands at a total of 230 (up from 101 at the end of the 2nd quarter 2005).

The registered office address of the Group is located at Charlottenstraße 57, 10117 Berlin, Germany.

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

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

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

## 3. Summary of significant accounting policies

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The principal accounting policies adopted in preparing the financial statements of SIS are in accordance with the Annual Report for the year 2005.





#### 4. Notes to cash flow statements

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

#### 5. Contingent liabilities IAS 34.16

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

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

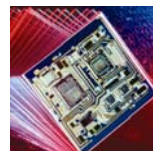
*As of December 31, 2005*

	2006	2007 - 2011	as of 2011
	€ 1,000	€ 1,000	€ 1,000
Rent and lease	744	1,978	2,636
Premium-oriented pension plans	196	769	879
	<b>940</b>	<b>2,747</b>	<b>3,515</b>

*As of June 30, 2006*

	7 - 12/2006	2007 - 2011	as of 2011
	€ 1,000	€ 1,000	€ 1,000
Rent and lease	366	2,024	2,640
Premium-oriented pension plans	98	769	879
	<b>464</b>	<b>2,793</b>	<b>3,519</b>





## 6. Segment reporting 2006

This is provided on the following basis:

### (1) Application-oriented chip and component manufacture

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

### (2) Other products

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

#### First quarter 2006

	Custom-designed production		Other production		Consolidated	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Segment turnover	7,396	3,351	79	11	7,475	3,362
Segment result	733	517	20	-48	753	469

#### Second quarter 2006

	Custom-designed production		Other production		Consolidated	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000	€ 1,000
Segment turnover	15,455	6,466	165	127	15,620	6,593
Segment result	1,504	765	20	24	1,524	789



## *Internal statement*

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Officers held the following (individual) shares in the company on the June 30, 2006:

Dr. Hans-Georg Giering	5,000	(June 30, 2005: 0)
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