

SILICON SENSOR INTERNATIONAL AG

BUSINESS REPORT

for the first nine
months of the
2000 business
year
(unaudited)

REPORT FOR THE FIRST 9 MONTHS 2000 - SILICON SENSOR GROUP

Key data for the period Jan. 1 – Sept. 30, 2000

	30.09. 2000 <i>TDM</i>	30.09.1999 <i>TDM</i>	Change <i>TDM</i>	% Percent change
Sales revenue	6.613	5.048	1.565	31
Orders on hand	7.200	4.100	3.100	75
Gross operating result on sales	5.036	4.388	648	15
R&D expenditure	797	396	401	101
M&A expenditure	597	0	597	
Operating result	482	1.653	-1.171	
Nine-month surplus	-1.344	-1.223	-121	
Nine-month surplus, DM/individual share certificate	-0,79	-0,72	-0,07	
Personnel (Sept. 30)	54	37	17	46

	30. 09. 2000 <i>T€</i>	30.09.1999 <i>T€</i>	Change <i>T€</i>	% Percent change
Sales revenue	3.381	2.581	800	31
Orders on hand	3.681	2.096	1.585	75
Gross operating result on sales	2.575	2.244	331	15
R&D expenditure	407	202	205	101
M&A expenditure	305	0	305	
Operating result	246	845	-599	
Nine-month surplus	-687	-625	-62	
Nine-month surplus, EUR/individual share certificate	-0,40	-0,37	-0,03	
Personnel (Sept. 30)	54	37	17	46

Preface

Silicon Sensor International AG on its way to becoming the world's leading supplier of custom-designed optical sensors – Major sales increase ensures continued growth

To all shareholders and business associates,

The Silicon Sensor Group has experienced strong growth during the first nine months of the business year. Compared with the same period last year, sales rose round about 31% and reached DM 6.6 million. This is all the more remarkable as customer allegiance in our sphere of business tends to develop over several years of intensive cooperation.


We are pleased to report a two-digit increase in sales and orders on hand for all divisions once again, confirming the Group's overall continued growth which has averaged about 50% since our business start. These are figures which put us way ahead of mean levels reported for the opto-electronic sensor market as a whole.

Silicon Instruments GmbH, a newcomer during the period under review, has made a first contribution to the Group's success with a sales increase of 85%. While this may look modest in absolute terms, it is the opinion of the managing board that there is potential for above-average expansion also in the coming years.

There has been no further increase in the operating result for the first nine months, due to the emphasis on establishing production capacity in the U.S. Past experience has shown just how important it is to be close to the customer in this particular market.

The first nine months have laid the basis for further expansion throughout the Group, with particular advances made in image processing and the construction sector where new orders have been secured from major customers. As in previous years, the trend for the order backlog has been to roughly equal the corresponding sales volume.

By starting series production in the infrared-enhanced APD product line we have made up ground on our main competitor in the U.S. and, as expected, seen initial sales growth in this fast-growing market segment. At the same time, the company has demonstrated its capacity for innovation and given clients the opportunity to meet a larger percentage of their demand for high-quality optical sensors from our production.



Throughout this quarter, SIS has held on to its leading position in our core business, making custom-designed optical semiconductor sensors. To maintain and strengthen that position, we also need to look at processes that are peripheral to chip production and, in particular, packaging. This is the operation which transforms a chip into an optical component and includes attaching the contacts, putting the chip into a housing and, where necessary, preconnecting specific filter systems. During the period under review, the managing board conducted intensive negotiations with a leading packaging company, the acquisition of which will doubtless strengthen the Group's leading position in the manufacture of tailor-made sensors to excellent quality standards. The board expects to conclude these talks in the fourth quarter of 2000. In addition, work on a pilot line for highly specialized packaging jobs is in full swing at the Group's parent plant.

The complete refurbishment of our Internet presentation at www.silicon-sensor.com has certainly paid off, and we have had a widely positive response from customers and investors alike. Requests made for further improvement in this connection are now being put into practice by Silicon Projects GmbH, with the accent on information management, a weak point often criticized in the past. The aim is to pass on more of the latest information on the Group to shareholders.

As an important step during the period under review, Silicon Sensor International AG moved into its new Berlin offices, thus improving the working environment and creating better conditions for external and internal communication. In the same context, the sales unit has been relocated from an external site to new offices near the R&D department.

Business trends during the period under review included a steady growth in the customer base and an effort to reach ambitious sales targets. The results achieved are clear proof that the Group has changed over from a medium-size enterprise to a global player listed at the stock exchange.

Production continues with the accent on custom-designed products (some requiring extensive development), avalanche photodiodes, and tailor-made sensors. A new process for photodiode through-plating developed over several years was successfully tested during the period under review.

Silicon Sensor GmbH has successfully proceeded with two major development projects for the automotive industry. Under the general heading of optical distance measurement, these revolve around sensors as used, for example, in smart cruise control for motor vehicles.

Pacific Silicon Sensor Inc. has not only made progress in the direct marketing of sensor chips and sensor systems in North America and Asia but also taken the initiative for entering into a contractual commitment with a Japanese sales firm which is to support market penetration in Asia. The managing board is hoping to seal a cooperation agreement by the end of the 4th quarter. During the period under review, support from an Israeli client has also been enlisted for a far-reaching development project whose start hinged on the progress made toward setting up a production line for custom-designed packaging. Work to install the line had begun in the previous quarter.

Silicon Instruments GmbH has set a new record in the development of the Handheld Gamma Finder, a portable unit which supports minimal invasive surgery, and produced the first prototypes. The new instrument, a world first, is eagerly awaited by surgeons, sales associates, and pharmaceutical companies active in the field of nuclear medicine. We can trust that finding applications for our sensors is the right step toward ensuring global growth.

Berlin, Nov. 29, 2000

*The Managing Board
Silicon Sensor International AG*

Dr. Bernd Kriegel

Dr. Hans-Georg Giering

Business trends


The Silicon Sensor Group is a specialist supplier of opto-electronic sensors (photodetectors) for measuring alpha, beta, gamma and X-rays, and ultraviolet, visible and very near infra-red radiation. Its clients include leading industrial corporations and research establishments who have outsourced highly specialized production processes, among them 3M, Hewlett-Packard and Deutsche Agentur für Raumfahrtangelegenheiten. Silicon Sensor makes optical sensors, sensor systems and applications for these companies and others such as Agfa-Gevaert AG, Carl Zeiss Jena GmbH, DaimlerChrysler Aerospace Dornier GmbH, Siemens AG and Sympatec GmbH.

The market for opto-electronic sensor products, in which the company is active, is generally regarded as promising with a good potential for growth. The number of manufacturers and/or exclusive importers of sensor products in Germany has been estimated at about 600. Their annual sales of these products (containing at least one basic sensor component) total about DM 10-12 billion. A study of the European sensor market undertaken by Frost & Sullivan, a research house, found a volume of US\$ 924 million for 1998, expected to rise to about US\$ 1,3 billion by the year 2005. The global market volume for sensor products is several billion US\$ and rising steadily. Custom-designed high class sensors presently account for just under 12% of this volume but are clearly favored by market trends. In a climate of constant innovation, these sensor products will be used on a growing scale, creating an excellent environment for the growth of manufacturers such as the Silicon Sensor Group.

The Group is among the five leading companies active in the development and manufacture of optical high class sensors. These five alone supply 50% of the total market, the main competitors being Hamamatsu Photonics of Japan and a Canadian company, EG&G Optoelectronics Group.

Foreign developments

In order to gain a foothold on the rapidly growing U.S. and Asian markets and promote the Group's international activities, Pacific Silicon Sensor Inc. was established in the U.S. This has been a logical step toward creating local manufacturing capacity and opening up the U.S. and Asian markets. Together with this subsidiary, Silicon Sensor aims to expand and secure shares in the global market from its competitors in 2000 and 2001.



One result of establishing the U.S. subsidiary will be to delay the positive result envisaged for this year to 2001. Pacific Silicon Sensor Inc. is expected to break even in 2002 which is a realistic forecast.

The Silicon Sensor Group is excellently positioned in the global market and dominates the German market. For example, it is now developing new types of sensors for optical distance measurement (as used in smart cruise control for motor vehicles) on behalf of two leading automotive manufacturers under a joint project which runs for a period of two years. The idea is to replace conventional ultrasonic measurement with laser technology and high class sensors made by Silicon Sensor with a cost saving of 90%. This would open up gigantic growth potentials in the automotive markets of the U.S. and Europe. The development aims at using Eye-Save laser systems for smart cruise control in cars of the middle and top range.

Staff developments

The success of the SIS group derives from the extensive know-how of its personnel and over 30 years of experience in the development and production of optical high class sensors. Future expansion will require staff motivation and the recruitment of new personnel with adequate skills. As a further step in this direction, a highly qualified engineer joined the customized packaging division in the 3rd quarter.

Staff levels at the Berlin parent company have slightly increased compared with the previous year. The U.S. subsidiary PSS now has a workforce of eight. The total number of staff for the SIS group had risen to 54 by the end of the quarter (as against 37 at the end of the 3rd quarter 1999).

Outlook

The SIS Group, a leading manufacturer of custom-designed optical sensors, has also gained a good reputation as a high-quality supplier.

Based on the positive results of the 3rd quarter, the Group can now be confident of achieving the budgeted doubling of sales for the business year 2000 and has, at the same time, laid the basis for further growth through acquisitions. The managing board expects one major acquisition to be completed this year.

The Group's market significance has further increased in 2000, its know-how has been used as a strategic factor to achieve a consistent growth of both sales and profits.

With a wider customer base, dependence on the Group's one major client has been clearly reduced over the period under review. Developments in the 3rd quarter 2000 have confirmed, however, that long-standing cooperation with this client who accounted for 14.2% of total sales during the quarter should be strengthened over the long term. Compared with the same period of the previous year, that client was responsible for almost 50% of total turnover.

Due to positive trends up to the 3rd quarter, the managing board expects the consolidated surplus for the business year 2000 adjusted in terms of DVFA to be less negative than planned in view of budgeted startup costs for the U.S. subsidiary and for installing new production and quality assurance capacity.

Despite high capital inputs, Pacific Silicon Sensor Inc. will become profitable as planned at the beginning of 2002.

The many industrial applications of sensor products will again make this the fastest growing business division, with our development capacity ensuring opto-electronic problem solutions to high standards of quality.

The distribution structures required to serve leading industrial clients attracted over the last few years will be created. In the medium term, beginning market penetration in the U.S. and Asia is expected to compensate for fluctuations in demand and the dependence on big customers in the European market. Risks arising from general economic development should be minimized by branching out into new spheres of activity.

Capital worth a maximum of EUR 2,172,990.50 and obtained by issuing 850,000 new individual share certificates has been approved for acquiring shares of other companies. Apart from seeking strategic advances, Silicon Sensor International AG is also committed to honoring its responsibilities toward shareholders by improving information and communication processes which will make it a successful high-tech undertaking.

Berlin, Nov. 29, 2000

The Managing Board
Silicon Sensor International AG

Dr. Bernd Kriegel

Dr. Hans-Georg Giering

CONSOLIDATED INCOME STATEMENT

01.01.-30.09.2000

	01.01.-30.09.00 <i>DM</i>	01.01.-30.09.99 <i>KDM</i>
Sales	6.612.832,83	5.048
Increase or decrease in finished goods inventories and work in process	29.619,58	589
Other own work capitalized	1.481.568,79	77
Other operating income	313.578,51	272
Cost of materials		
Cost of raw materials, consumables and supplies and of purchased goods	917.564,72	520
Cost of purchased services	1.120.483,16	806
Personnel expenses		
Wages and salaries	2.927.806,68	1.519
Social security and other pension costs	422.844,01	324
Amortization and depreciation of intangible assets and property, plant and equipment and expenses incurred in connection with the start-up costs	978.101,24	675
Other operating expenses	3.287.795,73	1.464
Other interest and similar income	-46.604,50	-30
Amortization of financial assets	105.905,70	139
Results from ordinary activities	-1.276.297,03	569
Extraordinary result (Expenses of initial stock market flotation)	0,00	1.486
Income taxes	0	0
Other taxes	-83,00	2
Result after taxes	-1.276.214,03	-919
Profits transferred on the basis of a partial profit transfer agreement	67.500,00	304
Consolidated net loss	-1.343.714,03	-1.223
Minority interests	176.553,86	0
Net loss brought forward	-2.298.694,93	-129
Loss	-3.465.855,10	-1.352

GROUP STATEMENT OF CASH FLOWS

01.01.-30.09.2000

	<i>01.01.-30.09.00</i> <i>KDM</i>	<i>01.01.-30.09.99</i> <i>KDM</i>
Consolidated net loss	-1.344	263
Depreciation on fixed assets		
	615	345
Depreciation on goodwill	363	330
Increase in accruals	22	22
Foreign currency translations	110	0
Non-operating income	-1.180	0
Decrease in inventories, in trade receivables and in other assets that cannot be allocated to investing or financing activities	-1.922	-2.310
Decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities	1.641	-455
Expenses of IPO		-1.486
Cash flow from operating activities	-1.695	-3.291
Outflows for		
Investments in goodwill Silicon Instruments GmbH	-627	0
Investments in property, plant and equipment/Intangible assets	-2.084	-454
Cash flow from investment activities	-2.711	-454
Proceeds from issuance of share capital	0	13.888
Proceeds from silent partners	0	250
Repayment to silent partners	0	-850
Repayment loan	-366	0
Loans receivable	-1.600	0
Loans payable	1.600	0
Decrease banks creditors	-1.333	-1.831
Cash flow from financing activities	-1.699	11.457
Changes in cash and cash equivalents	-6.105	7.712
Decrease of liquid assets	-6.105	7.712
Cash and cash equivalents available at the beginning of the financial year 01.01.	6.552	9
Cash and cash equivalents available at 09-30-2000	447	7.721

CONSOLIDATED BALANCE SHEET
FOR THE ENDED SEPTEMBRE 30, 2000

ASSETS

	<i>30.09.2000</i> <i>DM</i>	<i>30.09.2000</i> <i>KDM</i>
START UP COSTS	1.095.017,00	0
FIXED ASSETS		
Intangible asset		
Concessions, industrial and similar rights and assets and licenses in such rights and assets	434.458,72	1
Goodwill	6.418.851,00	6.264
	6.853.309,72	6.265
Property, plant and equipment		
Technical equipment and machinery	1.915.888,28	1.579
Other equipment, operational and office equipment	1.639.730,76	525
Payments on account and assets under construction	1.003.420,68	775
	4.559.039,72	2.879
Financial assets		
Investments	1,00	20
	11.412.350,44	9.164
CURRENT ASSETS		
Inventories		
Raw materials, consumables and supplies	715.495,18	265
Work in process	2.604.349,04	2.200
Finished goods and merchandise	1.351.174,96	899
Payments on account		
	4.671.019,18	3.364
Accounts receivable and other assets		
Accounts receivable, trade	2.135.917,30	1.541
Other assets	1.949.175,95	615
	4.085.093,25	2.156
Cash on hand and balances at banks	447.747,25	7.695
PREPAID EXPENSES	228.775,39	51
	21.940.002,51	22.430

CONSOLIDATED BALANCE SHEET
FOR THE ENDED SEPTEMBRE 30, 2000

EQUITY AND LIABILITIES

	30.09.2000 <i>DM</i>	30.09.2000 <i>KDM</i>
EQUITY		
Subscribed capital	8.500.000,00	8.500
Additional paid in capital	11.387.972,17	11.388
Net loss	-3.465.855,10	-1.353
Foreign currency translations	115.327,61	0
Minority interests	-274.867,74	0
	16.262.576,94	18.535
SILENT PARTNERS' CONTRIBUTIONS	750.000,00	1.750
ACCRUED LIABILITIES		
Pension accruals	249.848,00	220
Accrued taxes	4.328,20	0
Other accrued liabilities	533.411,00	262
	787.587,20	482
LIABILITIES		
Liabilities due to banks	2.076.949,09	0
Payments received on account of orders	0,00	28
Accounts payables, trade	1.240.387,19	557
Other liabilities	822.502,09	1.078
	4.139.838,37	1.663
	21.940.002,51	22.430

CARRY OVER TO US-GAAP

	30.09.2000 <i>DM</i>
Share Capital	8.500.000,00
Non-operating correction	-6.285.000,00
Share Capital (US GAAP)	2.215.000,00
Capital reserves (HGB)	11.387.972,17
Operating correction	93.030,06
Additional paid in capital (US GAAP)	11.481.002,23
FOREIGN CURRENCY TRANSLATIONS (HGB/US GAAP)	115.327,61
Minority interests (HGB)	-274.867,74
Non-operating correction	274.867,74
Minority interests (US GAAP)	0,00
Minority profit and loss (HGB)	176.553,86
Non-operating correction	-176.553,86
Minority profit and loss (US GAAP)	0,00
Loss carry forward (HGB)	-2.298.694,93
Non-operating correction	-369.694,16
Operating correction	-7.615,00
Loss carry forward (US GAAP)	-2.676.004,09
Profit and loss (HGB)	-1.343.714,03
Operating correction	-729.957,23
Profit and loss (US GAAP)	-2.073.671,26
Net equity (HGB)	16.262.576,94
Corrections	-7.200.922,45
Net equity (US GAAP)	9.061.654,49