



# BUSINESS REPORT

for the year 2010

SILICON SENSOR INTERNATIONAL AG

## Silicon Sensor International AG

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Symbol: SIS

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# SILICON SENSOR GROUP

## 2010 Financial Statement

### EARNINGS PERFORMANCE FIGURES

#### *Financial ratios January 1 – Dec. 31, 2010 (2010 financial statement)*

<i>in € thousands, unless specified otherwise</i>	<b>2010</b>	<b>2009</b>	<b>Δ</b>	<b>Δ %</b>
Sales	<b>45,232</b>	30,207	15,025	50
Orders on hand	<b>21,751</b>	15,209	6,542	43
Result of operating activities before depreciations (EBITDA)	<b>7,032</b>	2,058	4,974	242
Operating result (EBIT)	<b>3,617</b>	-1,114	4,731	425
Annual net profit	<b>2,226</b>	-1,611	3,837	238
Equity capital	<b>38,008</b>	35,383	2,625	7
Equity ratio	<b>56 %</b>	58 %	-2 %	-3
Earnings per share (EUR)	<b>0.34</b>	-0.35	0.69	197
Number of shares (weighted)	<b>6,626</b>	4,661	1,965	42
R&D expenses	<b>3,197</b>	2,950	247	8
Number of employees	<b>341</b>	272	69	25

#### *Financial ratios January 1 – Dec. 31, 2010 (4th quarter of 2010)*

<i>in € thousands, unless specified otherwise</i>	<b>Q4 2010</b>	<b>Q4 2009</b>	<b>Δ</b>	<b>Δ %</b>
Sales	<b>12,949</b>	9,302	3,647	39
Orders on hand	<b>21,751</b>	15,209	6,542	43
Result of operating activities before depreciations (EBITDA)	<b>2,076</b>	927	1,149	124
Operating result (EBIT)	<b>1,100</b>	385	715	186
Annual net profit	<b>442</b>	289	153	53
Equity capital	<b>38,008</b>	35,383	2,625	7
Equity ratio	<b>56 %</b>	58 %	-2 %	-3
Earnings per share (EUR)	<b>0.07</b>	0.05	0.02	41
Number of shares (weighted)	<b>6,626</b>	5,821	805	14
R&D expenses	<b>844</b>	710	134	19
Number of employees	<b>341</b>	272	69	25

# SILICON SENSOR GROUP

## Consolidated Financial Statement 2010

### FOREWORD FROM THE EXECUTIVE BOARD

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*Dr. Hans-Georg Giering*  
*Vorstandsvorsitzender*



*Dr. Ingo Stein*  
*Finanzvorstand*

Silicon Sensor back on course for growth – exceptional annual results for 2010!

Dear ladies and gentlemen,  
dear business partners,

When we published our last financial report, one year ago, we had just come through the economic and financial crisis of 2009 and were feeling cautiously optimistic about the future. Following an operating loss of €1.1 million in 2009, we had forecast a small profit for 2010. Today, we are proud to say that the efforts made by all our employees have meant that our expectations have been clearly exceeded:

- Sales have increased by 50%, taking the figure to €45.2 million. Even if we do not include sales from First Sensor Technology GmbH, which was acquired during the reporting period, the organic growth still amounts to an above average 39 %. This gain is mainly due to increased demand for our high-quality sensor solutions from regular customers, but can also be attributed to the expansion of business from new customers.
- With an EBIT of €3.6 million, Silicon Sensor is once again able to build on its previous earnings power. Over the course of the last financial year, we were able to increase profit forecasts on two separate occasions. Five consecutive positive quarters clearly show that we are back on a positive growth track. Our regained earnings power is also evident in the annual profit, which rose from -€1.6 million in 2009 to +€2.2 million in 2010.
- The volume of orders on hand rose by 43% to €21.8 million compared with the previous year's reporting date, underlining the dynamic nature of our growth.
- The excellent result for 2010 also contributed to a continued improvement in the balance sheet structure, with our net worth showing €38.0 million and our equity ratio at 56%. We have liquid funds of €14.6 million at our disposal to finance further growth, and currently unused credit lines amount to the value of €4.2 million.
- The reorganization of our company into a profitable integrated industrial group, which was introduced by the Board at the beginning of 2009, has been systematically pursued in 2010 and has also been acknowledged by the capital market: during the course of 2010, the share price rose by 58% from €5.50 to €8.70 at the end of the year. The current share price is €9.50. A number of institutional investors have either joined Silicon Sensor or expanded their position.

The Group's exceptionally good result for 2010 was not only boosted by the increasing demand for sensor solutions in a stabilizing market, but also by the restructuring measures and corporate actions initiated in 2009.

- The reduction in personnel and material costs in 2009 as well as the streamlining of organizational processes through mergers created the necessary freedom for new investments in growth areas.
- The corporate action implemented in 2009, which led to a total equity capital influx of €14.6 million, significantly improved the balance sheet structure and facilitated investments in two further companies in 2010. Financial stability is also an important selling point for our customers, who frequently enter into a close, long-term service relationship with us.
- Investments in the sales structure, research and development as well as the increased efficiency of our production processes began to bear fruit in 2010 and will lead to the implementation of further economies of scale in the years to come.

Silicon Sensor presents itself as an integrated industrial group that is able to meet customers' requirements for high-quality sensor solutions at all stages of the value chain – from sensor components to sensor modules, right through to sensor systems. With this in mind, we have built up our capacity and expertise in various locations and are always on the look out for ways in which to further expand our range of services:

- In order to consolidate our skills in the field of MEMS technology, we acquired First Sensor Technology GmbH in the spring of 2010. MEMS technology is mainly used in the manufacture of pressure sensors but also for acceleration and inclination sensors. At the same time, this acquisition has also secured the supply for subsequent value-added steps within the Group.

- In the summer of 2010, we acquired a 24.9% stake in Vereta GmbH. The company, which specializes in climate and particulate matter sensor technology, has developed a mobile measuring device for particulate matter, which – unlike competitor products – enables direct interpretation of measurements on site. As of 2013, 11 million households in Germany alone will be legally required to have their particulate matter emissions measured every three years.
- At the beginning of 2010, we entered into a cooperation agreement with Quantum Semiconductor International Co., Ltd. (QSI), a Korean manufacturer of laser diodes. This agreement not only enables us to continue to target the Asian market with our products but also expands our product range in the field of laser diodes.

We expect more investments and ventures to follow, thus enabling us to further strengthen our integrated value chain and tap into complementary product areas and technologies.

During 2011, several developments from the Silicon Sensor Group will enter production and go on sale. These include sensor solutions for the driver assistance system for a large automotive manufacturer, the mobile measuring device for particulate matter and the third generation of our cancer cell detector. Alongside these, we are continuously developing new solutions for a range of industries as well as our own products for the energy and environment sectors, for example.

Throughout 2011, we will also be continuing to invest in the enhancement of our production efficiency, particularly at our Berlin site. Among other things, we will be bringing together the areas of MEMS (micro-electro-mechanical systems, in particular pressure sensors) and OPTO (optical sensor solutions) in our modern sensor factory, allowing us to create synergies from the integration of production steps. The increases in efficiency that we expect to achieve as a result of this measure will be reflected in the results for the coming years.

We are therefore expecting to follow up our large increase in sales in 2010 with continued growth in 2011. Assuming the economic conditions remain the same, our aims for 2011 are to break the €50 million sales mark and restore the ability of our company to pay dividends. We are aiming for an EBIT operating result of over 10% of the sales figure. In subsequent years, we hope to maintain strong growth in sales, averaging at 20%. In the long term, we intend to achieve an operational return on sales (EBIT margin) of over 15%.

In 2011, we will be celebrating our 20-year company anniversary. We have 20 years' experience developing and manufacturing high quality sensor solutions for a wide range of industries and applications. We hope that you – in your capacity as shareholder, customer, employee, cooperation partner or supplier – will join us on our journey through the next 20 years.

Yours faithfully,

Dr. Hans-Georg Giering  
CEO

Dr. Ingo Stein  
CFO

# SILICON SENSOR GROUP

## Consolidated Financial Statement 2010

### GROUP STATUS REPORT AND STATEMENT OF AFFAIRS FOR SILICON SENSOR INTERNATIONAL AG FOR THE 2010 BUSINESS YEAR

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#### Business Areas

Silicon Sensor develops and manufactures customer-specific, high-end sensor solutions. These innovative solutions are used to convert non-electric variables (radiation, light, pressure, position, speed, temperature, humidity etc.) as effectively as possible into electrical measurement parameters, which can then be processed in our customers' electronic systems. Our high-end sensor solutions thus help to give our customers' products a competitive edge. Some of our most important sectors include solutions in the field of optical sensors as well as MEMS sensors (micro-electro-mechanical systems), in particular pressure sensors.

The individual companies that make up Silicon Sensor are active throughout the value chain: in addition to sensor components, Silicon Sensor also develops and manufactures extremely reliable, customized hybrid circuits and products for microsystem engineering and advanced packaging (sensor modules) right through to complete sensor systems. The Group's customers include well-known industrial companies and research institutes. As a rule, a project begins with the definition of the customer's requirements and the joint preparation of a development strategy. This is followed by an extensive development and test phase before – in most cases – a long-term supply relationship commences.

The sensor solutions from Silicon Sensor mostly serve as critical basic components in all kinds of applications for variety of industries, making the Group largely independent of business cycles in individual industries. The market segment that we target with our high-end sensor solutions is commonly accepted as a strong growth market.

Silicon Sensor is one of the world's leading developers and manufacturers of optical and MEMS-based high-end sensor solutions for the most exacting requirements. These include, for example, two worldwide leading products that were previously designed and manufactured by Silicon Sensor – avalanche photodiodes (APDs) and avalanche photodiode arrays. Customers use these APDs together with laser modules in, for instance, high-precision distance measuring systems for a variety of applications.

Sensor solutions made by Silicon Sensor can be found in countless applications in a wide range of industries, such as electronic yardsticks, tank pressure and solar altitude sensors in motor vehicles, air-conditioning systems, blood sugar measuring instruments, X-ray units for baggage inspection, machine control systems, space research, cancer operations, toll systems for trucks, and measuring instruments in the pharmaceuticals industry and environmental engineering, to name but a few.



Silicon Sensor develops and produces sensor solutions for each stage of the value chain. The various German sites in Berlin, Dresden and Oberdischingen and the one site in America each occupy different positions in the value chain. It is often the case that several group companies are involved in processing a customer order.

**Sensor components** are developed and manufactured at two locations:

- Silicon Sensor International AG (SIS), Berlin produces opto-electronic components in its modern sensor factory in Berlin-Oberschöne-weide.
- First Sensor Technology GmbH (FST), Berlin produces MEMS components in Berlin-Adlershof.

The housings are mainly assembled by Microelectronic Packaging Dresden GmbH in Dresden (large-scale) or Lewicki Microelectronic GmbH in Oberdischingen (small batches).

Since the two Berlin-based production processes demonstrate considerable overlaps and synergy potential, they are to be brought together at the Berlin-Oberschöne-weide site later this year.

If a sensor component is subsequently combined with other electronic components and circuitry to form a switching circuit and, for example, mounted on ceramic (construction and connection technology, hybrid technology, microsystem engineering), a **sensor module** is created. These process steps are performed at three locations within the Silicon Sensor Group:

- Microelectronic Packaging Dresden GmbH (MPD), Dresden has specialized in construction and connection technology (including packaging) for 15 years. Its product range encompasses everything from small batches right through to large-scale production, e.g. steering angle sensors for the automotive industry.
- Lewicki Microelectronic GmbH (LME) in Oberdischingen has been supplying extremely reliable hybrid circuits and applications for microsystem engineering, e.g. for space technology, for over 40 years.
- Pacific Silicon Sensor Inc. (PSS), in Westlake Village, California, is not only responsible for the sale of our sensor solutions in the USA but also for the development and production of sensor modules using modern microsystem engineering.

Adding further value to a sensor module, e.g. signal evaluation and calibration, results in a **sensor system**. This value-added step is carried out in three locations:

- Silicon Micro Sensors GmbH (SMS) in Dresden develops, manufactures and markets sensor-based systems, such as camera systems for local public transport or low pressure sensor systems for the automotive sector.
- The minority shareholding, Vereta GmbH in Einbeck, has developed several products in the fields of humidity, current and particulate matter sensor technology. Its mobile measuring device for particulate matter will go to market in 2011.
- Silicon Sensor International AG in Berlin has developed a special probe for use in cancer surgery, the third generation of which will also be marketed in 2011.

The value creation stage at which our sensor solutions are called upon is determined by our customers' requirements. At present, components and services are still bought in from external companies in some areas. The allocation of partial orders to the individual locations is performed centrally.

## Business Trends

### Overall economic environment

The overall economic industry environment in Germany, which remains the most important market for the Silicon Sensor Group, accounting for 49% of sales, has improved considerably since the previous year. According to data from the AMA Association for Sensor Technology, the sensor industry, which reached its low point in mid-2009, achieved 32% growth in 2010. The Association expects further growth in the region of 13% for 2011, as well as a significant increase in investment activity. AMA estimates the sales volume of the global sensor market for 2010 to be between \$70 and 120 billion, which means its worth has increased 25-fold in the last 25 years and doubled in the last 10 years. The industry is benefiting from the sharp increase in sensor applications in various industries, areas of life and consumer sectors.

The effects of the economic crisis on the sensor industry appear to have finally been overcome. Technologically competent companies are benefitting from the fact that sensor solutions are playing an important part in a growing number of application areas. The increase in the number of projects has led to pricing pressure among the established products, which only reinforces the need for providers of sensor solutions to continue developing innovative products. Capacity for innovation and financial stability are two of the most important criteria for customers when deciding on a supplier. The long-term nature of the planning periods, a traditional characteristic of this industry, has abated somewhat in recent years. Requests from customers are being made in shorter cycles, contracts are being awarded for shorter periods and the average project volume is declining. Price competition resulting from the manufacture of products in emerging countries must be met with a superior level of quality.

Based on the positioning of the Silicon Sensor Group, we are proceeding on the assumption that we are strong enough to overcome the challenges of further growth.

## Growth of the Silicon Sensor Group

### **Strong sales growth in 2010 – Large increase in profits following crisis of 2009**

The Silicon Sensor Group achieved sales of €45.2 million last year, which equates to a 50% growth in sales. Even if we do not consider the proportional sales from First Sensor Technology GmbH, which was included in the group accounts on April 1, 2010, growth is still in the region of 39 %. This gain is mainly attributable to increased demand from our existing customers for high quality sensor solutions from the Silicon Sensor Group. The uncertainty of our customers as a result of the global economic events of 2008 and 2009 and the associated reduction in stock levels gave way to an optimistic approach and a rise in orders, as well as the start of new projects in 2010, while business from new customers was also on the up. This trend is continuing: the commencement of a multi-year contract for the supply of camera systems for a major automotive supplier has, for example, been announced for the second half of 2011.

As an integrated industrial corporation, the Silicon Sensor Group is not only reaping the benefits of the general economic recovery in the wake of the economic crisis, but also profiting from the growing number of application areas for special sensors in a broad range of sectors. A look at the volume of orders on hand shows that this dynamic growth is continuing: at €21.8 million on 12.31.2010, the figure was 43% higher than the value exactly one year previously.

The growth in profits was extremely pleasing. An EBIT of €3.6 million means that we not more than compensated for the loss of the previous year (-€1.1 million) but also returned to pre-crisis levels. With a €1.1 million EBIT for the fourth quarter of 2010 and quarterly profits of €0.4 million, this is the fifth consecutive positive quarter since the culmination of the crisis in mid-2009. The total profit for the year is €2.2 million, following a loss of €1.6 million the previous year.

### **After the restructuring in 2009, 2010 is all about investment in growth areas**

The Silicon Sensor Group used 2009 as an opportunity to prepare for the revival of the economy:

- Two cash capital increases yielded a total of €14.6 million liquid assets and strengthened the company's equity base.
- Organizational processes were streamlined by means of mergers, and a total of €3.8 million p.a. was saved by reducing personnel and other costs.
- The company began investing in the expansion of its sales structure, increasing the efficiency of its production facilities as well as in research and development projects.

Building on this, the company pushed ahead with its tapping of future growth markets in 2010:

## Tapping the Asian market through joint ventures

An extensive cooperation contract has been agreed with Quantum Semiconductor Inc. (QSI) in Cheonan City, Korea. As part of this agreement, Silicon Sensor will assume responsibility for the sale of QSI laser diodes in Europe and North America, while QSI will bolster the sale of Silicon Sensor photodiodes in Asia. For the Silicon Sensor Group, this venture is not only about market expansion in Asia, but also about consolidating its experience in the field of laser diodes, a strategically important complementary product line. A further cooperation agreement has also been signed with Optrans, a Japanese manufacturer of optical diodes. Both agreements expand our distributor network in China – an important driver of new customer business in 2010.

## Strengthening of expertise in the field of MEMS sensors

The 100% acquisition of First Sensor Technology GmbH, effective April 1, 2010, signified an important extension of our product portfolio. The company located in Berlin-Adlershof is one of the leading suppliers of customized solutions in the increasingly important field of MEMS sensors (MEMS: micro-electro-mechanical systems). This technology is used in particular to develop and manufacture pressure sensors, as well as inclination and acceleration sensors. As a result, Silicon Sensor has not only opened a door into this fundamentally important technological field, but has also secured both expertise and a major supplier for existing customer projects. This year, there are plans to move the company to the Silicon Sensor International AG premises in Berlin-Oberschöneweide, so as to achieve synergies by interlinking the production processes for both component groups (OPTO and MEMS) as well as in the areas of purchasing, sales and research & development.

## Expansion of product business through minority shareholding

During the last financial year, Silicon Sensor acquired a 24.9% stake in Vereta GmbH in Einbeck, a development company that specializes in particulate matter and climate sensors. Vereta's mobile device for measuring particulate matter, which – unlike competitor products – enables immediate evaluation of the results on site, goes to market in fall 2011. As of 2013, 11 million households in Germany alone will be legally required to have their particulate matter emissions measured every three years.

We are also planning further investments and joint ventures that will expand our technology and product portfolios.

## Results of Operations, Net Assets and Financial Position

### Accounting procedures

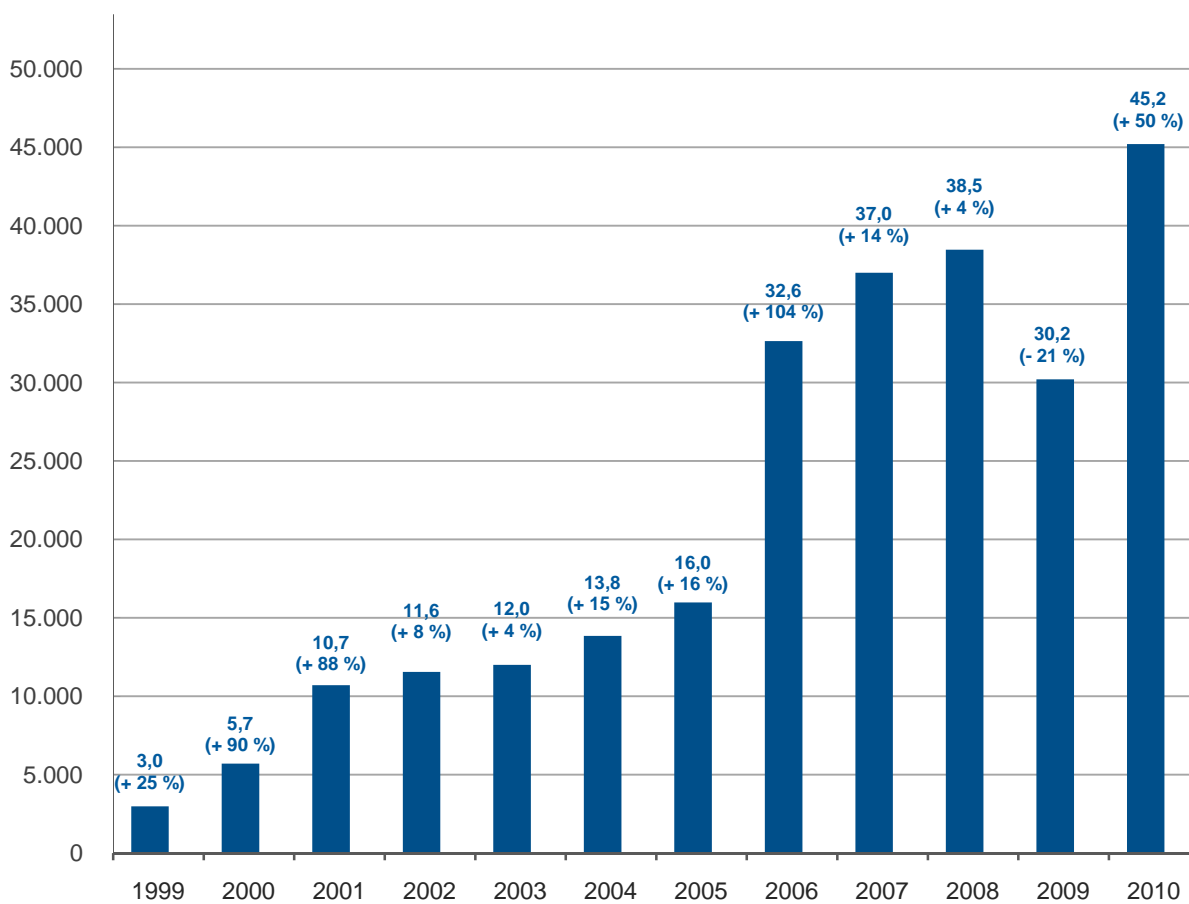
Silicon Sensor International AG (hereafter "SIS") has prepared the consolidated financial statement in keeping with § 315a of the German Commercial Code (HGB) in accordance with the IFRS (International Financial Reporting Standards).

## Profit situation

The following tables show the development of sales for the Silicon Sensor Group as well as the most important earnings figures compared with the previous year:

### Total sales for the Silicon Sensor Group following consolidation

in € millions



## Structure of the consolidated profit and loss statement

€ thousands	2010	as % of overall performance	2009	as % of overall performance
Sales	45,232	93	30,207	95
<b>Overall performance</b>	<b>48,484</b>	<b>100</b>	<b>31,679</b>	<b>100</b>
Material usage	-19,001	39	-11,460	36
<b>Gross profit</b>	<b>29,483</b>	<b>61</b>	<b>20,219</b>	<b>64</b>
Personnel expenses	-15,321	32	-11,869	37
Depreciation	-3,415	7	-3,172	10
Other expenses	-7,140	15	-6,292	20
Share in profits of affiliated companies	10	0	0	0
<b>Operating result (EBIT)</b>	<b>3,617</b>	<b>7</b>	<b>-1,114</b>	<b>n.a.</b>
Financial result	-636	1	-831	-3
<b>Annual profit before taxes</b>	<b>2,981</b>	<b>6</b>	<b>-1,945</b>	<b>n.a.</b>
Income taxes	-671	1	278	1
Profit on minority interests	84	-	-56	0
<b>Annual net profit</b>	<b>2,226</b>	<b>5</b>	<b>-1,611</b>	<b>n.a.</b>

During the last financial year, Silicon Sensor was able to increase its sales by 50% to €45.2 million. Even excluding sales from First Sensor Technology GmbH, which was included in the group of consolidated companies on April 1, 2010, the growth in sales is still 39%. This indicates that Silicon Sensor has overcome the crisis of 2009 and is now in a stronger position to shape future growth. The main growth drivers were an increase in orders as well as new projects for our existing customers. Here we can clearly see the initial effects of our investments in the strengthening of sales structures, in particular in key account management. New business was generated principally in Asia. In 2010, a number of new projects were launched, which will lead to more sales from new customers in 2011 and in the years to follow.

The other operating income to the tune of €1.7 million (previous year €2.0 million) relates mainly to the investment grants and subsidies granted for facilities and building investment and expenses allocations for Research and Development.

The Group's momentum of growth is also reflected in the stockpiling of finished and unfinished goods. In 2009, stock levels were reduced by €0.5 million, while in 2010 they were increased by €0.8 million.

The cost of materials ratio is 39%, which is higher than the figure for the previous year (36%). The main reason for this is the shifting of shares of sales within the operational units of the Silicon Sensor Group. For example, the manufacture of sensor systems differs from sensor components in terms of the added value offered.

Personnel costs within the Group rose by 29% to €15.3 million. As well as the investments in a technologically competent sales structure and in research and development, which began in mid-2009, and the increase in employees necessitated by production, this rise can be primarily attributed to the initial consolidation of First Sensor Technology GmbH on April 1, 2010. The same applies to the 13% rise in other operational expenditure to €7.1 million.

This results in an EBITDA of €7.0 million (previous year: €2.1 million).

Depreciation of tangible and intangible assets amounted to €3.4 million (previous year: €3.2 million). The increase in depreciation is mainly due to the purchase price allocation as part of the

initial consolidation of First Sensor Technology GmbH as well as new investments to increase efficiency, particularly in Berlin-Oberschöneweide.

This results in an EBIT of €3.6 million – a significant turnaround from the crisis-struck previous year (-€1.1 million). Silicon Sensor has enjoyed five consecutive positive quarters since the crisis peaked in the middle of 2009.

The excellent operating result is reflected in the annual net profit. The financial result is marked by net interest expenses of €0.7 million (previous year: €0.8 million). After taxes and minority interests, this results in an annual net profit of €2.2 million, compared with an annual deficit totaling €1.6 million in the previous year. Earnings per share amount to €0.34 (previous year: -€0.35).

## Net asset position

Compared with the previous year's reporting date, total assets have increased by 12% to €68.1 million. In addition to our growing business volume, which is reflected in increased receivables and inventories, among other things, this rise can be mainly attributed to the inclusion of the assets of First Sensor Technology GmbH in the consolidated financial statement.

In comparison with 12/31/2009, the positive results have increased the group's equity by €2.6 million to €38 million, which represents an equity ratio of 56% (58% as at 12/31/2009). This is particularly important for our customers when choosing service providers, as the development and production processes extend over several years and the financial stability of a business partner is essential in times of crisis.

Overall, the sum of short and long-term loans fell by €0.3 million to €13.2 million when compared with 12/31/2009. Total amortization exceeded the value of new investment loans.

Compared with 12/31/2009, liquid funds decreased by €2.5 million to €14.6 million, mainly due to the financing of an acquisition from company funds. The available liquid funds and the unused bank credit lines will allow Silicon Sensor International AG to finance its further growth.

In addition to the increased sales and order volumes, the rise in accounts receivables (+€1.3 million to €6.1 million) and inventories (+€4 million to €11.7 million) can be mainly attributed to the incorporation of First Sensor Technology GmbH in the consolidated financial statement (since April 1, 2010). The fact that goodwill rose by €1.1 million to €3 million and intangible assets by €1.7 million to €2.2 million is largely the result of the purchase price allocation performed during the initial consolidation of First Sensor Technology GmbH.

## Financial position

The aim of the financial management practiced at Silicon Sensor is to provide our production processes with adequate liquidity at all times. We use interest swaps to counter the risk posed by rising interest rates. As part of our financial management, we also attempt to alleviate the foreign currency risks resulting from our Asian customer relationships by acquiring raw materials from the relevant currency zones.

The Group's cash flow statement is shown in the following table:

€ thousands	2010	2009	Δ
Operating cash flow	6,177	1,078	5,099
Cash flow from investment activities	-8,384	-86	-8,298
Cash flow from financing activities	-401	11,496	-11,897
Currency differences	14	-9	23
Change in liquid funds	-2,594	12,479	-15,073
Liquid funds at beginning of business year*	16,652	4,173	12,479
<b>Liquid funds at end of business year*</b>	<b>14,058</b>	<b>16,652</b>	<b>-2,594</b>

\* Less advances on current accounts

Due to the positive development of earnings, the operating cash flow of €6.2 million greatly exceeds the previous year's value (€1.1 million). Cash flow from investment activities amounting to -€8.4 million (previous year: -€0.1 million) can be traced back to the acquisition of First Sensor Technology GmbH and initial contributions to the capital reserves of Vereta GmbH when procuring a 24.9% share. However, it can also be ascribed to additional investments in tangible assets, including those made to increase the efficiency of production processes at the Berlin site. Amortization of €2.5 million was accompanied by new loans totaling €2.1 million, resulting in a cash flow from financing activities of -€0.4 million (previous year: €1.5 million, due to the two cash capital increases). Compared with 12/31/2009, total funds therefore decreased by €2.6 million to €14.1 million. With this comfortable liquidity position, the Silicon Sensor Group is well equipped to fund its further growth.

## Overall findings

After the crisis year of 2009, Silicon Sensor has been able to profit from the economic revival and industry growth in 2010. Losses in the previous year were followed by excellent results in 2010. At the same time, the Group was able to lay the foundations for continued growth. With a strong equity base and ample liquidity, a stable customer base, qualified employees and an excellent strategic position, the company is well equipped for a successful future.



## Profit situation and net assets of Silicon Sensor International AG (individual financial statement in accordance with HGB)

Silicon Sensor International AG fundamentally altered its structure in the 2009 business year. The amalgamation with the operational units Silicon Sensor GmbH and Silicon Instruments GmbH has transformed Silicon Sensor International AG from a holding company with strategic and financial control functions into a powerful industrial enterprise. In addition to the strategic management of the Group, Silicon Sensor International AG is now also responsible for the operational business activities involving the development and production of high-quality, customer-specific sensor solutions. The amalgamation has resulted in leaner processes in a wide range of areas including research, development, sales, purchasing, accounting, finance and controlling. The two cash capital increases in 2009 have significantly strengthened the equity capital of Silicon Sensor International AG.

In the 2010 financial year, Silicon Sensor International AG achieved sales of €12.6 million, representing a €7.3 million increase over the previous year. Stocks of finished and unfinished goods rose by €0.5 million, compared with the reduction of stock level by €0.4 million). Other operating income – consisting mainly of investment grants, group allocations for subsidiaries and exchange rate differences – amounted to €0.8 million (previous year: €0.7 million).

Material costs amounted to €3.5 million, compared with €1.8 million in the previous year. This results in an unadjusted margin of €10.7 million (previous year: €5.9 million). The Group's personnel costs totaled €5.5 million, compared with €4.2 million in the previous year. At the end of the year, the company employed 86 staff in production, R&D and administration, representing a 4-person increase over the previous year. Depreciations to the tune of €1.2 million (previous year: €1.1 million) relate to the machine park and office equipment as well as the newly constructed factory and administrative building.

Other operational expenditure amounts to €3.6 million, consisting primarily of legal and consultancy fees, advertising and marketing costs, maintenance expenses as well as rent and occupancy costs. The previous year's figure of €6 million contains the extraordinary merger loss of €3.2 million.

The extraordinary income of €0.2 million contains the reversal of a provision for anticipated losses from interest rate hedging transactions resulting from the implementation of the German Accounting Law Modernization Act (BilMoG).

The Group's net interest income amounted to -€0.5 million (previous year: -€0.7 million), which relates mainly to the loans taken out to finance the new building.

It was possible to completely balance the accumulated loss carry forward, which was incurred primarily by the merger loss in 2009.

The net worth of Silicon Sensor International AG is €38.4 million, compared with €36.7 million in the previous year. This represents an equity ratio of 67 % (previous year: 69 %). The Group's liquid funds on the reference date amounted to €9.9 million, while tangible fixed assets totaled €20.3 million. This gives Silicon Sensor International AG a solid foundation for its continued successful development.

The Board is basing its corporate planning on further increases in sales and income over the coming business years.

## Orders on hand

As at 12/31/2010, the Group's orders on hand had increased by 43% from the previous year's reporting date to €21.8 million. This represents an excellent basis for developing our earnings in 2011. Our customers are awarding their contracts with increasingly shorter notice.

## Personnel Development

As at December 31, 2010, the Silicon Sensor Group's global workforce had risen from 272 on December 31, 2009 to a total of 341 people, of which 11 work abroad and 330 are domestic employees.

The main cause for this staff increase was the initial incorporation of First Sensor Technology GmbH into the consolidated financial statement. New appointments were also necessitated at almost all sites by the increased production efforts and investments in both sales and R&D.

## Disclosures Required by Takeover Law in Accordance with § 289 Par. 4 No. 1 HGB and § 315 Par. 4 No. 1 HGB

The subscribed capital of €33.1 million is divided into 6.6 million individual shares. 29,90 % are to be attributed to Mr. Daniel Hopp, Germany and the following companies are controlled by him: DAH Beteiligungs GmbH, Hopp Beteiligungsgesellschaft mbH & Co. KG and Hopp Verwaltungs GmbH including their respective attributable shares.

The specifications governing the nomination and withdrawal of Executive Board members as well as amendments to the articles of association are based on the relevant legal regulations.

As well as the contingent capital for the allocation of share options to Board members and employees, additional contingent capital exists for up to 600,000 individual shares to be awarded to holders of convertible bonds when exercising conversion privileges. The Executive Board is permitted to acquire own shares for the company, provided that their value does not exceed 10% of the basic capital. Furthermore, authorized capital to the value of €16.6 million was in place as at 12/31/2010.

In the case of a change of control at Silicon Sensor International AG, Dr. Giering is to be paid the cash value of the future remuneration stipulated in the existing employment contract. This remuneration is limited to three annual salaries. Furthermore, the higher amount from the previous and current year's profit-sharing bonuses is also taken into account. These payments will be made if the Supervisory Board cancels the appointment of Dr. Giering within six months of the change of control or at Dr. Giering's request.

# Compensation Report in Accordance with § 289 Par. 2 No. 8 HGB and § 315 Par. 2 No. 4 HGB

## A. Executive Board

The remuneration of the Executive Board is defined by the Supervisory Board. The criteria governing the appropriateness of the Executive Board's remuneration is primarily based on the responsibilities of the relevant Board member, his personal performance as well as the economic situation and success of the company in comparison with its peers. The Supervisory Board and Executive Board of Silicon Sensor International AG have agreed to adjust the employment contracts of the two board members in line with the German Act on the Appropriateness of Management Board Compensation (VorstAG) from January 1, 2010 – independently of the existing contract terms. Basing the Executive Board's remuneration on long-term economic success was and remains a core element of the management philosophy and fundamental values of Silicon Sensor International AG. However, the practical implementation of VorstAG did necessitate appropriate contract amendments.

Since its revision on 01/01/2010, the remuneration of the Executive Board comprises the following components:

- Fixed annual salary
- Variable remuneration in the form of a profit-sharing bonus and participation in a long-term stock option plan
- Benefits in kind and other contributions
- Retirement provisions

The fixed annual salary is paid monthly and checked at regular intervals.

The variable remuneration in the form of a profit-sharing bonus is based on a long-term assessment basis, while its value is determined by the development of the company's EBIT (earnings before interest and taxes). If the company does not achieve a positive result, no profit-sharing bonus is issued. In the case of extraordinary, unpredictable circumstances, the Supervisory Board can restrict the amount of the profit-sharing bonus accordingly.

As a long-term incentive, the Board members participate in the company's stock option plan. The exercise period for this plan, which was agreed at the general meeting of 06/09/2009, runs for five years following a three-year waiting period.

Examples of benefits in kind and other perquisites are the financial benefits gained from the private use of company cars as well as the employer's contributions to health and care insurance.

The retirement provision takes the form of payments to contribution-based pension plans. Severance payments to departing Board members are already contractually limited as per the recommendations of the German Corporate Governance Code.

The fixed annual salary of the Executive Board in 2010 totaled €687,000 (previous year: €408,000). The variable remuneration (performance-based profit-sharing bonus) amounted to €256,000 (previous year: €0). The non-performance-based perquisites include the financial benefits gained from the private use of company cars as well as the employer's contributions to health and care insurance. In addition, payments totaling €108,000 (previous year: €90,000) were

made to contribution-based pension plans for the board members. An overview of the Executive Board remuneration is provided in section 29.

## *B. Supervisory Board*

The remuneration of the Supervisory Board is regulated by § 13 of the articles of association and agreed in the context of the general meeting. As decided in the general meeting of 06/17/2010, the remuneration of the Supervisory Board comprises a fixed amount of €5,000 (with the chairman receiving double and the deputy one-and-a-half times this amount) as well as an attendance fee of €500 per meeting. In 2010, the remuneration of the Supervisory Board members, including attendance fees, amounted to €42,000. The members of the Supervisory Board do not receive any performance-based remuneration, nor do they participate in the company's stock option plan.

## Supplementary Report

On 16.02.11, Silicon Sensor concluded a sales agreement with BFI OPTiLas, Europe's largest distributor of optical sensors. Under the agreement, BFI OPTiLas will distribute Silicon Sensor's optical sensor components in a number of European markets, including the Benelux countries, France and Spain. This will allow Silicon Sensor to deliver its current product range to a number of additional markets without investing extensive resources.

## Risk Management Report

### **Description of the internal control system**

In its domestic and international activities, Silicon Sensor is confronted by a number of risks, which are inextricably linked with its entrepreneurial business approach. All our activities across the globe are subject to constant monitoring and control processes.

As part of its risk management system, the Executive Board has defined the following following risk principles:

- The company practices value-based corporate management as a means of constantly raising its intrinsic value as well as its return on assets.
- The organization of operational procedures under observation of the generally accepted rules for internal control systems is based on the principle of decentralized management. The subsidiaries, divisions and departments are responsible for their own individual business processes, which must comply with the guidelines and specifications defined by the Executive Board. The relevant internal procedures are described in the documentation on ISO-based process standardization and form the basis of our internal actions.
- To record, assess, monitor and control the business processes, Silicon Sensor has created a universally applicable strategy, planning and budgeting process, which was also employed in 2010. This process is supported by continuous market and competition analyses as well as monthly reporting. The data reported relates to the company's order and activity status as well as its profit situation and net asset position. The planning of the subsidiaries is reassessed on a rolling monthly basis. An important control variable in this context is the EBIT (earnings

before interest and taxes). Major investments and other expenditure must be agreed with the Executive Board.

- To enable consistent assessment and monitoring of cumulative and individual risks for all processes throughout the Group, the Executive Board and the directors of the subsidiaries held regular meetings throughout 2010 to discuss opportunities and risks alike. Risk assessments are also a fixture of the monthly reporting.
- The Group-wide reporting and control system ensures timely and appropriate notification of all decision-makers. Business performance is permanently transparent, while changes to the business environment can be detected at an early stage and any necessary countermeasures implemented.

## Risks posed by the Group's future development

- The level of international competition faced by the Silicon Sensor Group carries the risk that it will be impossible to implement the personnel capacities required to support the Group's planned growth, or that this will be more expensive than anticipated. The risk applies particularly to highly qualified employees. Silicon Sensor is tackling this issue by means of internal staff development programs.
- On the sales markets, the company is facing the risk that the current economic revival may halt due to global economic and political developments, which in turn will result in hesitancy on the part of our customers to place new or repeat orders.
- In the area of R&D, there is a risk that development projects of Silicon Sensor may not have the desired results or that innovation trends will not be recognized in a timely manner. More cost-effective production methods or innovations of our competitors could have a significant impact on the market position of established Silicon Sensor products. Due to the niche position ensured by the development of tailored sensor solutions for our customers, the Silicon Sensor Group is in an excellent competitive position.
- The planned growth of the Silicon Sensor Group requires constant assurance of the company's liquidity. Cash reserves are in place for unforeseen circumstances. Our liquidity in the 2011 business year is secured primarily by the cash funds from the 2009 capital increases as well as the existing, but currently unused company credit lines to the value of €4.2 million.
- The development of the global stock markets, and the small-cap sector in particular, may result in a devaluation of Silicon Sensor shares, which could restrict the Group's financing flexibility through equity capital measures, or even make the Silicon Sensor Group a possible takeover target.

## Opportunities

In addition to the risks described above, there are also a number of business development opportunities, which could result in the additional, unplanned improvement of the Group's profits, net assets and overall financial position:

- Silicon Sensor practices a large number of internal development projects. The progress of these projects can have different outcomes: solutions may achieve market-readiness at an early stage, or the company may be able to unlock additional market potential. In future, Silicon Sensor will also be marketing its own complete systems in selected target markets.
- The sales agreement concluded with BFI OPTiLas in February 2011 provides access to the most important European markets and unlocks additional market potential without the need for major investment. Furthermore, the joint venture initiated with the Korean laser diode manufacturer QSI in 2010 will serve as the basis for enhancing Silicon Sensor's presence in the Asian market.
- The financial stability of Silicon Sensor is becoming an increasingly important factor in customer purchasing decisions, which will allow us to gain additional orders.
- In the 2011 fiscal year, Silicon Sensor International AG will invest in new machines in order to further increase the efficiency of its factory in Berlin-Oberschöneweide. Furthermore, the transfer of the MEMS division to the modern production plant will realize further synergies resulting from the merger of OPTO and MEMS production processes. If the order volume should rise, the economies of scale will also increase, as the same workforce will be able to process a higher volume in the same time.

## Accounting-related internal control system

Since Silicon Sensor AG is a capital-market-oriented corporation in accordance with § 264d HGB, it is required under § 315 Par. 2 No. 5 HGB to describe the main features of its internal control and risk management system, both with regard to the financial accounting processes of the included companies as well as to the corporate accounting policies.

The internal control and risk management system governing the financial accounting process and corporate accounting policies is not formally defined by law. We regard the internal control and risk management system as a comprehensive system based on the auditing standards of the Institut der Wirtschaftsprüfer in Deutschland e.V. (Institute of Public Auditors in Germany) concerning the accounting-related internal control system (IDW AS 261 Subs. 19 f.) and the risk management system (IDW AS 340, Subs. 4). According to these publications, an internal control system comprises the principles, procedures and measures introduced by company management to facilitate the organizational implementation of management decisions to secure the effectiveness and efficiency of the company's business activities (which also involves the protection of corporate assets, incl. prevention and exposure of asset misappropriation), safeguard the correctness and reliability of internal and external accounting and comply with the relevant legal provisions.

The risk management system comprises all organizational regulations and measures to support risk detection and general handling of the risks posed by entrepreneurial activity.

With regard to the financial accounting processes of the included companies and the corporate accounting policies, the following structures and processes are implemented within the Group:

The Group Executive Board bears overall responsibility for the internal control and risk management system with regard to the financial accounting processes of the included companies and the corporate accounting policies of the Group. All companies included in the consolidated financial statement are integrated by means of a fixed management and reporting arrangement.

The principles, the structural and procedural organization as well as the actual processes of the accounting-related internal control and risk management system are defined in universally applicable company directives, which are adapted to current external and internal developments at regular intervals.

With regard to the financial accounting processes of the included companies and the corporate accounting policies, we attribute the greatest importance to those features of the internal control and risk management system that significantly influence the Group's accounting procedures as well as the overall tenor of the consolidated financial statement incl. the Group status report. This includes the following elements in particular:

- Identification of main risk and control areas relevant to the corporate accounting process
- Monitoring of the corporate accounting process and its results both at Executive Board level as well as at the level of the companies included in the consolidated financial statement
- Preventative control measures in the corporate finance and accounting system, in the companies included in the consolidated financial statement as well as in the operational, performance-related company processes that provide salient information on the composition of the consolidated financial statement incl. the Group status report
- Measures to assure the correct, computer-based processing of data and facts relating to Group accounting

## Reporting in accordance with § 289a HGB

The Executive Board has submitted its declaration of conformity as per § 161 of the German Stock Corporation Act (AktG) and made it permanently available on the company website.

Following to the recommendation set forth in Item 5.4.1 Par. 3 of the German Corporate Governance Code the Supervisory Board has defined the goal to include at least one female member. The completion of this goal is aimed at by 2020 the latest. Presently, the Supervisory Board consists of three male members.

In addition and concerning the declaration of conformity we refer to page 87 of the annual report, concerning the compensation report we refer to page 19, and we declare the following:

The function of the Executive and Supervisory Boards is based on the relevant legal regulations, the articles of association and the rules of procedure. Accordingly, the Executive Board is responsible for the operational management of Silicon Sensor, while the Supervisory Board is involved in important strategic issues, decisions regarding investment and restructuring measures. The latter also regularly checks the economic efficiency, legitimacy and legality of the Executive Board's business administration.

## Forecast Report

Since 2009, Silicon Sensor has been focusing its efforts on continued growth. Two capital increases have significantly enhanced the company's equity base and raised funds to finance its future growth. A leaner organization has been created through mergers and cost reduction programs. At the same time, the important areas of sales, research and development have been strengthened. Furthermore, investments were made in 2010 to increase efficiency, particularly of the production processes at the Berlin-Oberschöneeweide site. These investments, which are in the low seven figures, will continue throughout 2011. We will also bring the OPTO and MEMS areas together at Berlin-Oberschöneeweide in order to achieve synergies resulting from the merger of production processes.

Our forecast for the next few years is based on the following assumptions:

- In 2010, Silicon Sensor was able to benefit from the general economic revival and from the positive industry-specific development in particular. We do not expect to encounter a significant economic downturn or global economic uncertainty in the near future, which would otherwise result in the running down of stocks by our customers.
- In combination with the ever increasing importance of sensor solutions for innovative product developments, Silicon Sensor's positioning as an integrated industrial corporation covering the entire value chain and possessing a wealth of experience in a range of different sectors will allow us to tap into new customer segments.
- Our past and future investments in the continued enhancement of our production efficiency, particularly at the Berlin site, and the geographical merger of the OPTO and MEMS divisions will deliver the planned synergies and economies of scale in the medium term.
- Important customer projects, which are currently in preparation, will be launched without delay.
- The new appointments of highly qualified personnel necessitated by our planned growth will be made as planned.
- We will not encounter any bottlenecks in the supply of materials, commodities and components.
- Due to the quality leadership of Silicon Sensor, the company is only exposed to price competition to a normal degree.
- The average US \$ exchange rate over the planning period will be \$1.4 to €1.

We achieved an exceptionally good result in 2010, with a 50% growth in sales to €45.2 million and an EBIT of €3.6 million. In 2011, we expect to exceed the €50 million threshold and achieve sales of €51 to 55 million. The operational return on sales (EBIT) is to be at least 10%. The strong sales growth of 20% is also to be maintained in subsequent years. In the long term, the operational return on sales (EBIT margin) is to be increased to 15%. To realize additional economies of scale, we are planning to make investments averaging 140% of overall depreciation in the next three years. This will allow us to integrate MEMS and opto-electronic sensor processes at the Berlin site, enhance the efficiency of our existing production facilities and make project-specific expansion investments.



## Forward-Looking Statements

In our planning for the coming business year, we have considered the uncertainties of future economic development with regard to changes in the economic environment, the development of the competitive situation, the market's acceptance of our products, processes and image, the partial dependency on customers and suppliers as well as the potential changes in currency parity – in as far as these factors are currently foreseeable.

Berlin, March 14, 2011

Silicon Sensor International AG

Dr. Hans-Georg Giering  
CEO

Dr. Ingo Stein  
CFO

## Silicon Sensor Shares

Following mixed performance in the 2009 fiscal year, characterized by an extended lateral movement, Silicon Sensor shares enjoyed a continuous upward trend throughout 2010. As a result thereof, and in combination with the positive economic development of the past year, the average trading volume of shares in Silicon Sensor International AG experienced a significant increase of 23% from 13,643 (2009) to 16,725 (2010) shares traded per day (total figures, based on XETRA and Frankfurt).

Having started 2010 with a price of €5.50, the Silicon Sensor share ended the past business year with a XETRA closing price of €8.70, representing its highest December 31 value since 2007. The company shares experienced a stock price gain of 58% over the course of 2010.

The market capitalization of €50 million has been exceeded on a long-term basis, which shifts the company stock ever more into the focus of institutional investors.

In the 2010 business year, some changes have occurred in the area of reportable investments. While Highclere International Investors Ltd. reduced its long-term share in Silicon Sensor from 4.97% to 2.99%, we were able to gain two new stockholders: Upolu Holding Inc. and Voit Foundation. The circle of investors holding a share in Silicon Sensor International AG in excess of 3% currently comprises the following:

- Mr. Daniel Hopp, Germany (and his companies DAH Beteiligungs GmbH, Mannheim, Hopp Beteiligungsgesellschaft mbH & Co. KG, Mannheim, and Hopp Verwaltungs GmbH, Mannheim, with their attributable shares) with 29.90%
- Upolu Holding Inc., Tortola, British Virgin Islands with 3.15%
- Voit Foundation, Eschen, Liechtenstein with 3.03%

### Key figures for Silicon Sensor shares (WKN: 720190)

€	2010	2009	2008	2007
Earnings per share	0.34	-0.35	-2.90	1.15
Equity per share	5.75	5.34	5.75	8.79
Share price at start of year <sup>1</sup>	5.50	5.82	16.09	13.86
Share price at end of year <sup>1</sup>	8.70	5.70	5.58	16.18
Highest price <sup>1</sup>	9.30	6.99	16.68	22.33
Lowest price <sup>1</sup>	5.50	3.68	5.36	12.10
Market capitalization (12/31) (€ millions)	57.65	37.77	21.78	63.04
Average daily trade	110,301	72,540	293,252	481,884
Price/earnings ratio (12/31)	25.59	n.a.	-1.92	14.07
Price/sales ratio (12/31)	1.27	1.25	0.57	1.70

<sup>1</sup> XETRA closing prices

## Development of Silicon Sensor shares

Silicon Sensor International AG

ISIN: DE0007201907

German Securities Code (WKN): 720190

%

01.01.2010 – 31.12.2010

- Silicon Sensor Int. (Xetra)
- TecDAX (Xetra)



# SILICON SENSOR GROUP

## 2010 Financial Statement

### GROUP BALANCE SHEET – ASSETS (IFRS)

€ thousands	Appendix	31.12.2010	31.12.2009
Liquid Funds	(3)	14,604	17,102
Accounts receivable	(4)	6,145	4,868
Receivables from affiliated companies		24	55
Inventories	(5)	11,704	7,700
Tax refund claims		115	393
Other Short-Term Assets	(6)	1,456	1,553
<b>Total short-term assets</b>		<b>34,048</b>	<b>31,671</b>
Tangible Assets	(7)	26,989	26,638
Intangible assets	(8)	2,227	530
Shares in affiliated companies	(9)	906	124
Goodwill	(8)	2,971	1,846
Deferred tax claims	(23)	946	163
Other long-term assets		22	20
<b>Total long-term assets</b>		<b>34,061</b>	<b>29,321</b>
<b>TOTAL ASSETS</b>		<b>68,109</b>	<b>60,992</b>

# SILICON SENSOR GROUP

## 2010 Financial Statement

### GROUP BALANCE SHEET – LIABILITIES (IFRS)

€ thousands	Appendix	31.12.2010	31.12.2009
Short-term loans	(12)	4,659	6,112
Accounts payable		3,778	1,904
Down payments received		1,914	1,222
Accruals	(10)	515	549
Liabilities from income tax		771	0
Other short-term liabilities	(11)	2,983	2,307
<b>Total short-term liabilities</b>		<b>14,620</b>	<b>12,094</b>
Long-term interest-bearing loans	(12)	8,533	7,385
Accruals	(10)	165	203
Deferred taxes	(23)	1,174	408
Deferred investment grants	(14)	5,531	5,525
<b>Total long-term liabilities</b>		<b>15,403</b>	<b>13,521</b>
Subscribed capital	(15)	33,130	33,130
Reserves	(16)	1,642	3,823
Currency adjustment items		-241	-339
Net profit/loss		3,477	-1,231
<b>Equity attributable to SIS AG shareholders</b>		<b>38,008</b>	<b>35,383</b>
Non-controlling interests		78	-6
<b>Total equity</b>		<b>38,086</b>	<b>35,377</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>68,109</b>	<b>60,992</b>

# SILICON SENSOR GROUP

## 2010 Financial Statement

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)

€ thousands	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009	Appendix	01.01.2010 – 31.12.2010 *	01.01.2009 – 31.12.2009 *
<b>Sales revenue</b>	45,232	30,207	(17)	12,949	9,302
Other operating income	1,735	1,966	(18)	651	857
Change in stocks of finished and unfinished goods	763	-526	(19)	-99	-719
Other capitalized services	754	32		219	32
Cost of materials/purchased services	-19,001	-11,460	(20)	-5,214	-3,025
Personnel expenses	-15,321	-11,869	(21)	-4,047	-3,175
Depreciation of tangible and intangible assets	-3,415	-3,172	(7; 8)	-976	-542
Other operating expenses	-7,140	-6,292	(22)	-2,393	-2,345
Share in profits of affiliated companies	10	0		10	0
<b>OPERATING RESULT</b>	<b>3,617</b>	<b>-1,114</b>		<b>1,100</b>	<b>385</b>
Interest income	118	58		55	13
Interest expenses	-836	-855		-223	-187
Currency profits	273	92		78	16
Currency losses	-191	-126		-55	-22
<b>PRE-TAX INCOME</b>	<b>2,981</b>	<b>-1,945</b>		<b>955</b>	<b>205</b>
Taxes on income	-671	278	(23)	-527	28
<b>PERIOD NET INCOME/LOSS</b>	<b>2,310</b>	<b>-1,667</b>		<b>428</b>	<b>233</b>
<b>Period surplus/deficit attributable to Silicon Sensor AG shareholders</b>	<b>2,226</b>	<b>-1,611</b>		<b>442</b>	<b>289</b>
Period surplus/deficit attributable to non-controlling interests	84	-56		-14	-56
<b>Expenses and income recognized directly in equity:</b>					
Differences arising from currency translation	98	-78		43	-30
Net profits/losses from cash flow hedges (after tax)	119	-100		37	41
<b>Total expenses and income recognized directly in equity</b>	<b>217</b>	<b>-178</b>		<b>80</b>	<b>11</b>
<b>TOTAL PERIOD RESULT</b>	<b>2,527</b>	<b>-1,845</b>		<b>508</b>	<b>244</b>
Total period result attributable to Silicon Sensor AG shareholders	2,443	-1,789		522	300
Total period result attributable to non-controlling interests	84	-56		-14	-56
<b>Earnings per share (undiluted)</b>	<b>0.34</b>	<b>-0.35</b>	(24)	<b>0.07</b>	<b>0.05</b>
Average number of shares in circulation (undiluted)	6,626	4,661		6,626	5,821
<b>Earnings per share (diluted)</b>	<b>0.34</b>	<b>-0.35</b>	(24)	<b>0.07</b>	<b>0.05</b>
Average number of shares in circulation (diluted)	6,641	4,661		6,662	5,823

\* The quarterly results are published in accordance with the rules and regulations of Deutsche Börse AG and are not part of the audited consolidated accounts as per IFRS.

# SILICON SENSOR GROUP

## 2010 Financial Statement

### GROUP CASH FLOW STATEMENT (IFRS)

€thousands	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
<b>PRE-TAX INCOME</b>	<b>2,981</b>	<b>-1,945</b>
Adjustments to reconcile operating result with cash flow from operating activities		
Depreciation of tangible and intangible assets	3,415	3,172
Other non-cash expenses/income	182	38
Income from investment grants	-602	-702
Losses from disposals	110	37
Interest expenses	836	855
Interest income	-118	-58
Increase/decrease of provisions	-247	152
Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-2,225	928
Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities	2,391	-566
Interest paid	-840	-853
Income tax paid	294	20
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>6,177</b>	<b>1,078</b>
Cash outflow for investments in tangible and intangible assets	-4,198	-2,491
Expenses for acquisition of subsidiaries	-4,195	0
Cash outflow for investments in associated companies	-482	0
Cash inflow from investment grants	373	2,347
Interest received	118	58
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>-8,384</b>	<b>-86</b>
Cash inflow from allocations to equity	0	14,615
Cash outflow for repayment of financial liabilities	-2,469	-3,820
Transaction costs for issue of shares	0	-119
Cash inflow from borrowings	2,068	820
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>-401</b>	<b>11,496</b>
<b>CURRENCY DIFFERENCES ARISING FROM TRANSLATION OF CASH AND CASH EQUIVALENTS</b>	<b>14</b>	<b>-9</b>
<b>CHANGES IN FUNDS AFFECTING PAYMENTS</b>	<b>-2,594</b>	<b>12,479</b>
Cash and cash equivalents at beginning of business year	16,652	4,173
<b>FUNDS ON REPORTING DATE (31.12.10)</b>	<b>14,058</b>	<b>16,652</b>

# SILICON SENSOR GROUP

## 2010 Financial Statement

### STATEMENT OF CHANGES IN EQUITY (IFRS)

between 01/01/2010 and 12/31/2010

€ thousands	Number of shares	Subscribed capital	Share premium	Revenue reserves	Unrealized profit/loss	Balance sheet loss/profit	Currency adjustment items	Equity attributable to SIS AG shareholders	Minority interests	Total equity
<b>As at Jan. 1, 2009</b>	<b>3,903</b>	<b>11,710</b>	<b>16,130</b>	<b>-854</b>	<b>-109</b>	<b>-4,208</b>	<b>-261</b>	<b>22,408</b>	<b>50</b>	<b>22,458</b>
Period profit/loss						-1,611		-1,611	-56	-1,667
Expenses and income recognized directly in equity					-100		-78	-178		-178
<b>Total period result</b>					<b>-100</b>	<b>-1,611</b>	<b>-78</b>	<b>-1,789</b>	<b>-56</b>	<b>-1,845</b>
Capital increase	2,723	12,585	2,030					14,615		14,615
Share capital increase without issue of new shares		8,835	-8,835					0		0
Transaction costs			-119					-119		-119
Share-based remuneration				268				268		268
Appropriation of balance sheet loss			-4,588			4,588		0		0
<b>As at Dec. 31, 2009</b>	<b>6,626</b>	<b>33,130</b>	<b>4,618</b>	<b>-586</b>	<b>-209</b>	<b>-1,231</b>	<b>-339</b>	<b>35,383</b>	<b>-6</b>	<b>35,377</b>

€ thousands	Number of shares	Subscribed capital	Share premium	Revenue reserves	Unrealized profit/loss	Balance sheet loss/profit	Currency adjustment items	Equity attributable to SIS AG shareholders	Minority interests	Total equity
<b>As at Jan. 1, 2010</b>	<b>6,626</b>	<b>33,130</b>	<b>4,618</b>	<b>-586</b>	<b>-209</b>	<b>-1,231</b>	<b>-339</b>	<b>35,383</b>	<b>-6</b>	<b>35,377</b>
Period profit/loss						2,226		2,226	84	2,310
Expenses and income recognized directly in equity:					119		98	217		217
<b>Total period result</b>					<b>-90</b>	<b>2,226</b>	<b>98</b>	<b>2,443</b>	<b>84</b>	<b>2,527</b>
Share-based remuneration				182				182		182
Appropriation of balance sheet loss			-2,482			2,482		0		0
<b>As at Dec. 31, 2010</b>	<b>6,626</b>	<b>33,130</b>	<b>2,136</b>	<b>-404</b>	<b>-90</b>	<b>3,477</b>	<b>-241</b>	<b>38,008</b>	<b>78</b>	<b>38,086</b>



# SILICON SENSOR GROUP

## 2010 Financial Statement

### GROUP APPENDIX

### NOTES ON THE CONSOLIDATED FINANCIAL STATEMENT

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*(All figures in € thousands, unless specified otherwise)*

#### 1. General Information

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Silicon Sensor International AG, Berlin (hereafter "SIS", "the company" or "SIS Group") and its subsidiaries are active in the fields of sensor manufacture and microsystem engineering, with a focus on the development, manufacture and sale of customized optical and non-optical semiconductor sensors and systems. The SIS Group also develops and manufactures highly reliable, customized hybrid circuits and products for microsystem engineering and advanced packaging.

In the 2010 business year, the average number of employees increased from 296 to 323. The SIS headquarters are located at Peter-Behrens-Str. 15 in Berlin (Germany).

#### 2. Accounting Policies and Valuation Methods

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##### **Basis for preparation of financial statement**

As a rule, the consolidated financial statement is created on the basis of the initial cost principle. This excludes the derivative financial instruments, which were measured at fair value. The consolidated financial statement was prepared in euro (€). Unless otherwise specified, all figures are given in € thousands.

##### **Declaration of IFRS compliance**

The consolidated financial statement of the SIS Group is prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable in the EU, as well as with the specifications of § 315a of the German Commercial Code (HGB).

##### **Changes to accounting policies and valuation methods**

The accounting policies and valuation methods employed are basically identical to those used in the previous year.

The application of newly revised standards and interpretations had no impact on the SIS Group's profits, net assets and overall financial position. However, these do partially necessitate additional specifications in the appendix.

The company has been applying the following standards since the 2009 business year:

## IFRS 3 – Business combinations

The revised standard IFRS 3 was published in January 2008 and is effective for the reporting period beginning on or after July 1, 2009. The standard was subjected to comprehensive revisions as part of a convergence project between IASB and FASB. The main changes relate particularly to the valuation of non-controlling interests, where a choice has been introduced between the *purchased goodwill* method, whereby the proportionate share of net assets is recorded, and the *full goodwill* method, according to which the goodwill of the acquired company must be recorded in full, including the share attributable to non-controlling interests. Additional key points are the remeasurement of existing interests at the time initial control is obtained (successive acquisition), the mandatory recognition of payments contingent on future events at the date of acquisition, as well as the treatment of transaction costs with regard to their effect on company results. The transitional provisions stipulate a prospective application of the new regulations. The situation therefore remains unchanged in the case of assets and liabilities resulting from business combinations completed prior to the initial application of the new standard.

## IAS 27R – Consolidated and separate financial statements according to IFRS

The revised standard was published in January 2008 and is effective for business years beginning on or after July 1, 2009. The standard introduces changes to the accounting treatment of business combinations completed after this date that have a direct impact on the estimated goodwill value, the results of the reporting period in which an acquisition occurred and the future results. IAS 27R stipulates that a change in the capital ownership of a subsidiary (without a loss of control) must be entered as equity transactions. As a result, such transactions will not result in goodwill, profit or loss.

The changes resulting from IFRS 3R and IAS 27R will affect future acquisitions, losses of control and transactions involving non-controlling interests. Since early adoption is permitted, the company has decided to implement the new standards prematurely.

## Published but not yet mandatory standards

The following IASB accounting publications are not yet mandatory and consequently have not yet been applied by SIS.

### "IFRS 9: Financial Instruments" (not yet adopted as EU law)

In November 2009, the IASB published IFRS 9 "Financial Instruments" as part of a project to revise the accounting policies for financial instruments. In October 2010, additions were made relating to the regulations governing financial liabilities, which are identical to those contained in IAS 39 with the exception of the measures concerning the consideration of credit risks when applying the fair value option. The effects on the consolidated financial statement are currently being investigated. The standard is mandatory for business years beginning on or after January 1, 2013. Early adoption will be possible when the standard is endorsed by the European Union.

The IASB has also made a number of other announcements. The recently implemented accounting publications have no significant impact on the consolidated financial statement of the SIS Group, nor do those announcements that have yet to be implemented.

## Important discretionary decisions and uncertainty of estimates

In preparing the consolidated financial statement, some assumptions and estimates have been made which have affected the amount and the disclosure of reported assets and liabilities, earnings and expenses. In individual cases, the actual values may deviate from these assumptions or estimates at a later stage. Relevant changes will be made to the financial statement once accurate information is available.

## Reduction of goodwill and long-term assets (appendix item 8)

The Silicon Sensor Group annually inspects the company's goodwill value and other long-term assets in accordance with IAS 36. The impairment test is based on the future cash surplus that is gained from the individual assets or groups of assets combined to form cash-generating units. The main long-term assets to be subjected to annual impairment testing are the SIS Group's reported goodwill as well as intangible assets resulting from business combinations.

## Share-based remuneration (appendix item 13)

The Silicon Sensor Group has granted employees and board members share-based remuneration. The valuation of the personnel expenses for this share-based remuneration contains estimates regarding the level to which the conditions of these options are met as well as of relevant market parameters.

## Provision for unfavorable contracts (appendix item 10)

As at December 31, 2010, the SIS balance sheet shows provisions for excess obligations resulting from the lease agreement for the company's former headquarters to the value of €163,000. These provisions are based on assumptions regarding the achievable subletting income.

## Consolidation principles

### Business combinations and goodwill – business combinations on or after January 1, 2009

Business combinations are reported according to the purchase method. The costs of a company acquisition are calculated as the sum of the consideration transferred, assessed at the fair value at the time of acquisition, and the non-controlling interests in the acquired company. In any business combination, the acquiring company values the non-controlling interest in the acquired company either at its fair value or as the relevant proportion of its identifiable net assets. Costs incurred as a result of the business combination are entered as expenditure. If the Group acquires a company, it assesses the appropriate classification and designation of the financial assets and transferred liabilities in accordance with the contract terms, economic circumstances and prevailing conditions at the time of the acquisition. This also involves the separation of the derivatives embedded in the host contracts.

In the case of successive business combinations, the equity ratio previously held by the acquirer in the acquired company is revalued at the fair value at the time of acquisition and the resulting profit or loss reflected in the income statement.

The agreed, conditional consideration is entered at the fair value at the time of acquisition. In accordance with IAS 39, subsequent changes to the fair value of a conditional consideration

representing an asset or liability are entered either in the income statement or under other results. A conditional consideration classified as equity is not revalued and its later payment is entered as equity capital.

Upon initial recognition, goodwill is valued at acquisition cost, calculated as the surplus of the transferred consideration over the acquired identifiable assets and liabilities assumed by the Group. If the consideration undercuts the fair value of the acquired subsidiary's net worth, the difference is entered in the income statement.

Following initial recognition, goodwill is valued at acquisition cost minus accumulated impairment losses. For the purposes of impairment testing, the goodwill gained from a business combination as of the acquisition date is allocated to the Group cash-generating units that are expected to profit from the merger. This applies regardless of whether other assets or liabilities of the acquired company are assigned to these cash-generating units.

If goodwill has been assigned to a cash-generating unit and a division of this unit is sold, the goodwill of the sold division is included in the calculation of the result of the sale as part of the book value of the relevant division. The value of the sold goodwill share is determined on the basis of the relative values of the sold division and remaining portion of the cash-generating unit.

#### **Business combinations and goodwill – business combinations before December 31, 2008**

Based on the previously applied method for entering business combinations in the balance sheet, the following divergent principles applied in comparison to the above specifications:

Transactions costs that were directly attributable to the company acquisition constituted part of the acquisition costs. The non-controlling interest (previously: "minority interest") was valued at the relevant proportion of the identifiable net assets of the acquired company.

In the case of successive business combinations, individual transactions were recorded separately. Additional interest acquired did not affect the goodwill from the previous transaction.

When the Group acquired a company, the embedded derivatives recorded separately from the host contract by the acquired company were only revalued at the time of acquisition if the business combination altered the contract terms such that the cash flows, which would otherwise have resulted from the contract, were significantly changed.

A conditional consideration was only recorded if the Group had a present obligation, if there were more arguments to support an outflow of resources with economic benefit than reject it and if a reliable estimate was possible. Subsequent adjustments to the conditional consideration directly affected goodwill.

## Subsidiaries

The Group's consolidated financial statement comprises SIS and the companies it controls – i.e. those companies for which the Group directly or indirectly holds 50% of the voting rights for the subscribed capital and/or can control the financial and business policies such that it profits from company's activities. As at December 31, 2010, the non-controlling interests correspond to the part of the period result and net worth of Silicon Micro Sensors GmbH ("SMS") that is attributable to shares not held by the Group. Non-controlling interests are entered separately in the income statement as well as under equity capital in the consolidated financial statement, where they are listed separately from the equity attributable to the parent company shareholders. When non-controlling interests are acquired, the book values of the equity attributable to the parent company shareholders and of the non-controlling interests are adapted accordingly. Any difference between the adjustment of the non-controlling interest and the paid or received consideration is entered directly in the equity capital and allocated to the parent company shareholders. Losses incurred by a subsidiary are always assigned to the non-controlling interests, even if this leads to a negative balance.

The following companies have been included in the consolidated financial statement as fully consolidated subsidiaries (the interests held by SIS are identical to the current voting rights):

Company	HQ	Core business activities	Shareholding
First Sensor Technology GmbH	Berlin	Development, manufacture and sale of piezoresistive pressure sensors for all industrial sectors	100 %
Lewicki microelectronic GmbH	Oberdischingen	Manufacture and sale of microelectronic components and assemblies	100 %
Microelectronic Packaging Dresden GmbH	Dresden	Manufacture and sale of microelectronic components and assemblies	100 %
Pacific Silicon Sensor, Inc.	Westlake Village, USA	Development, manufacture and sale of sensor systems as well as sale of sensor chips	100 %
Silicon Micro Sensors GmbH	Dresden	Development, manufacture and sale of microelectronic and micromechanical sensor systems, components, modules and microsystems	85 %
Silicon Projects GmbH	Berlin	Development, manufacture and sale of software and hardware as well as Internet services	100 %

## Company acquisitions

In the 2010 business year, SIS acquired all shares in First Sensor Technology GmbH, Berlin, (hereafter "FST"), as authorized by the Supervisory Board on February 11, 2010. The share purchase agreement was concluded on March 24, 2010. Upon payment of the purchase price, SIS took control of FST on April 1, 2010, as per the terms of the contract.

FST develops and manufactures piezoresistive pressure sensors for all industrial sectors, with a focus on pressure sensors up to an operating temperature of 225°C. The Group acquired FST as a means of enhancing its vertical integration in the field of pressure sensors and extending its product portfolio.

The acquisition of FST is reflected in the balance sheet as per the IFRS 3R purchase method. The acquisition costs of the business combination are then allocated to the acquired identifiable assets

as well as the transferred debts and contingent liabilities according to their fair value at the time of acquisition. The expenses and income accrued by FST in the period since the acquisition on April 1, 2010, are reflected accordingly in the consolidated financial statement.

The breakdown of the fair values of the identifiable assets and liabilities of FST at the time of acquisition is as follows:

<b>€ thousands</b>	
Tangible Assets	363
Intangible assets	713
Orders on hand	288
Active deferred taxes	711
Cash and cash equivalents	230
Accounts receivable	113
Inventories	2,141
Prepayments and accrued income, and other short-term assets	411
<b>Fair values of identifiable assets</b>	<b>4,970</b>
Accounts payable	-375
Accruals	-175
Other short-term liabilities	-248
Long-term loans also acquired by SIS	-785
Deferred tax liabilities	-817
<b>Fair values of identifiable liabilities</b>	<b>-2,400</b>
Fair value of net assets	2,570
Purchase price of acquired receivables against FST	785
Goodwill	1,125
<b>Transferred consideration</b>	<b>4,480</b>

The fair value of the accounts receivables is €113,000, which represents the gross value of the accounts receivables. None of the accounts receivables was impaired and the entire contractually agreed amount is expected to be recoverable.

The acquisition costs of the business combination amount to €4.48 million. The actual outflow of funds resulting from the company acquisition is as follows:

<b>€ thousands</b>	
<b>Actual outflow of funds resulting from company acquisition</b>	
Considerations – liquid funds	4,480
Transaction costs of company acquisition	45
Payments for own shares of FST	-55
Cash acquired with subsidiary	-230
	<b>4,240</b>

The acquisition of FST resulted in an outflow of funds to the value of €4.24 million. The transaction costs were entered as expenditure for the 2010 business year, resulting in active deferred taxes of €1000.

The goodwill of €1.125 million comprises the value of expected synergies resulting from the company acquisition. It is assumed that the recorded goodwill is not tax-deductible.

Between the time of acquisition and the reporting date, FST sales revenue to the value of €3.2 million and a period result of €45,000 have been included in the statement of income and accumulated earnings. If FST had been incorporated in the consolidated financial statement on

January 1, 2010, the included sales revenue would have amounted to €4.312 million, while the period result would have been €70,000.

### **Consolidation measures and overall Group assessment**

The financial statements for the subsidiaries and affiliated companies included in the consolidated financial statement are based on uniform accounting standards and reporting periods/dates.

Internal Group balances and transactions as well as the resulting internal group profits and unrealized profits/losses between consolidated companies have been eliminated in full.

### **Shares in affiliated companies**

Affiliated companies are shareholdings in which SIS has a significant influence on the relevant company's financial and business policies. These are accounted for under the equity method. The goodwill, which is calculated as the difference between the acquisition costs and the proportionate, revalued equity capital at the time of acquisition, is included in the book value of the affiliated company.

If the book value of the shareholding exceeds the recoverable amount, this results in a write-down of the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The loss in value is reflected in the income statement under "Share in profits of affiliated companies".

The proportion of net profit gained by SIS through their shareholding is included in the result of financial investments accounted for under the equity method. Intra-group profits from transactions with affiliated companies requiring elimination are offset against the book value of the shareholding in the income statement.

### **Foreign currencies**

The reporting currency of the Silicon Sensor Group is euro, which also acts as the functional currency of the parent company.

Each company within the group defines its own functional currency. The items contained in the financial statement of each company are valued using the relevant functional currency. Foreign currency transactions are initially converted into the functional currency at the spot rate valid on the day of the transaction. Monetary assets and liabilities in a foreign currency are converted into the functional currency on each reporting date, using the rate valid on that date. All currency differences are reflected in the income statement. Non-monetary items that have been valued at historical acquisition or manufacturing cost in a foreign currency are converted at the rate valid on the transaction date. Non-monetary items measured at fair value in a foreign currency are converted at the rate valid when the fair value was determined.

### **Foreign subsidiaries**

All foreign subsidiaries of SIS that are included in the consolidated financial statement are classed as economically independent foreign subunits, since they are financially, economically and organizationally independent. Their functional currencies match the relevant local currency. The balances of foreign subsidiaries are converted at the rate valid on the reporting date (12/31/2010:

0.75 euro/USD). The income statement is converted at the average rate (2010: 0.76 euro/USD). The differences resulting from the conversion are recorded as a separate component of equity.

## Liquid funds, cash and cash equivalents

Liquid funds include cash, time deposits and demand deposits.

Cash and cash equivalents are defined on the basis of the company's cash management and include the liquid funds as well as short-term current account liabilities with credit institutions.

## Financial assets

Financial assets are generally divided into the following categories:

- Loans and receivables originated by the company
- Derivatives meeting the requirements of hedge accounting

When financial assets are first recorded, they are recognized at the acquisition cost corresponding to the current value of the consideration; transaction costs are included. Financial assets from regular sales and purchases are reported on the trading day.

*Credits and receivables* are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial recording, the credits and receivables are valued at the amortized cost using the effective interest method less adjustment for loss of value. The amortized costs are calculated upon acquisition taking all premiums and discounts into account; they include all fees constituting an integral part of the effective interest rate and the transaction costs. Profits and losses are recorded in the period result if the credits and receivables are written off or depreciated, as well as in the context of amortization.

Financial assets are checked for depreciation on every reporting date. If, in the case of financial assets valued at amortized cost, the company is unlikely to be able to collect all loans and receivables agreed under the terms of the contract, an impairment or allowance for receivables is recognized in profit and loss. An impairment previously reported as expenditure will be corrected as affecting net income if the subsequent partial recovery (or reduced impairment) can be objectively attributed to circumstances arising after the original loss in value. However, an increase in value is only reported to the extent that it does not exceed the value of the amortized costs that would have been incurred if the impairment had not occurred.

### Write-offs

Financial assets or parts thereof are written off if the Silicon Sensor Group loses control of the contractual rights that make up the asset.

The reporting of derivatives meeting the requirements of hedge accounting is described under "Interest rate risks and hedging".

### Balancing

Financial assets and liabilities are only balanced such that merely the net amount is reflected in the balance sheet if a current legal entitlement exists to offset the entered amounts against one



another, with the intention of settling on a net basis or simultaneously repaying the liability by realizing the relevant asset.

### **Fair value**

The fair value of financial instruments traded on active markets is determined by the market price or the publicly listed price (bid price offered by the buyer for long positions and the ask price for short positions) on the reporting date without deduction of transaction costs.

The fair value of financial instruments not traded in an active market is determined on the basis of suitable valuation methods. This includes the use of the most recent transactions between knowledgeable, willing and independent business partners, comparisons with the current fair value of another, essentially identical financial instrument, the use of discounted cash flow methods and other valuation models.

An analysis of the fair values of financial instruments and further details on their valuation are provided under item 30.

### **Inventories**

The raw, auxiliary and working materials used to create inventories are not depreciated to a value less than their purchasing or manufacturing costs if the finished products in which they are used are likely to be sold at a price equal to or higher than the manufacturing costs. The sales costs incurred must also be taken into account in this case. However, if a price reduction for these materials suggests that the manufacturing costs of the finished products will exceed the net realizable value, the materials are depreciated to the net realizable value.

Unfinished and finished goods are valued at manufacturing cost or at the lower market value. The manufacturing costs comprise the direct personnel costs, material costs and the attributable portion of the production overheads. Borrowing costs are not capitalized. The value of obsolete and low-turnover articles is adjusted to an appropriate level.

In addition to fully processed wafers, the product range of the Oberschöneweide production site also includes chips, components and finished products. Due to these production-specific particularities, a retrograde valuation method is employed for finished goods and parts of unfinished goods. This is based on the order-related sales proceeds less the average unadjusted margin, the expected scrap and the manufacturing costs incurred until completion.

### **Tangible Assets**

Tangible assets are reported at purchasing and manufacturing cost less accumulated depreciation.

Borrowing costs attributable directly to procurement, construction or manufacture of a qualified asset are capitalized. For disposals of tangible assets, the historical purchase costs and accumulated depreciation are written off and the profit or loss from the asset disposal is reflected in the income statement.

Scheduled depreciation is performed on a straight-line basis over the following periods of useful life.

Buildings	25 – 33 years
Technical equipment and machinery	5 – 15 years
Office furniture and equipment	5 – 14 years

The useful lives and depreciation methods are checked on a regular basis to ensure correlation between the economic benefit and depreciation period.

Assets under construction are capitalized at purchasing and manufacturing cost and written off upon completion and commissioning. The manufacturing costs include the production-related full costs, which in turn comprise the prime costs and production overheads resulting from the work performed by the company's own employees in the construction of the facilities.

### Intangible assets

Intangible assets are capitalized by the SIS Group if the following apply:

- (a) The asset is the commercial property of the company as a result of past events
- (b) The company can expect to gain a future economic benefit from this asset
- (c) The costs of the asset can be reliably measured

This approach is used if an intangible asset is acquired externally. Internally created intangible assets are valued at the directly attributable development costs incurred if all the requirements of IAS 38.57 are met. Overheads that are necessitated by the creation of the asset and directly attributable to it are also capitalized. The capitalization of costs ends when the product is completed and generally available for use. In accordance with IAS 38.57, the following six requirements are prerequisite to the capitalization of development costs and must be met in the cases under review here:

1. Technical feasibility of completing the asset such that it is available for internal use and/or for sale
2. Intention to complete the intangible asset and to use or sell it
3. Ability to use or sell the intangible asset
4. Verification of expected future economic benefit
5. Availability of adequate technical, financial and other resources to be able to complete development and use or sell the intangible asset
6. Ability on the part of the company to reliably assess the expenditure attributable to the asset during its development

In addition, acquired developments (manufacturing expertise) were reported as intangible assets, provided that they could be reliably valued and the company had control over the utilization of the results of these development projects.

Depreciable intangible assets are recorded at their purchase cost less accumulated depreciation and accumulated loss in value. Non-depreciable intangible assets (goodwill) are recorded at purchasing cost less accumulated impairment losses. In accordance with IAS 38, depreciable

intangible assets are written off uniformly over their estimated useful life. The write-off period begins once the asset is available for use. The write-off period and depreciation schedule are checked annually at the end of the business year.

(a) Software

New software is capitalized at its purchase cost and recorded as an intangible asset, provided that the costs do not form an integral part of the associated hardware. Software is depreciated over a period of three or four years using the straight-line method.

(b) Goodwill

Upon initial recognition, goodwill is valued at the acquisition cost resulting from the surplus of the total consideration transferred and the value of the non-controlling interest over the acquired identifiable assets and liabilities assumed by the Group.

Every year, the achievable amount is determined for the cash-generating unit to which the goodwill belongs, regardless of whether or not any indications of an impairment exist. If the book value exceeds the achievable amount, a value adjustment is made.

(c) Research and development costs

The cost of research and development activities is recorded in the period in which it was incurred, unless concurrence with the requirements of IAS 38.57 can be verified in the case of development expenditure.

(d) Developments

The SIS Group has acquired development assets as part of a company buyout. These assets are subject to scheduled depreciation over a period of 20 years, which will begin when the development is marketed. The 2008 business year included unscheduled depreciation of these development assets, such that only a small residual book value remains.

(e) Impairment of long-term assets

Tangible and intangible assets are checked for potential impairment if specific events or changes to external circumstances indicate the possibility that the value achievable for the relevant asset on the reporting date may permanently undercut its book value, or if annual checks for impairment are required (as yet unused goodwill and intangible assets). If the book value of an asset exceeds the lower fair value, an impairment is recognized in the case of tangible and intangible assets valued at acquisition or manufacturing cost. The recoverable amount is the higher of the fair value less costs to sell and the value in use. The fair value less costs to sell corresponds to the amount achievable in the sale of the asset in a normal transaction between knowledgeable parties. The value in use is the cash value of the estimated future cash flows expected from the continuous use of an asset and its sale at the end of its useful life. The achievable amount must be estimated for each individual asset or, if this is not possible, for the smallest identifiable cash-generating unit.

## Accruals

In accordance with IAS 37, accruals are recorded for obligations the due dates or amounts of which are uncertain: Accruals must only be reported if the following apply:

- (a) A past event has given rise to a current obligation (legal or factual) on the part of the company
- (b) It is likely that an outflow of resources with economic benefit will be required to fulfill the obligation (i.e. there are more arguments to support than reject this)
- (c) A reliable estimate can be made concerning the amount of the obligation

The accrual amount represents the best estimate of the outlay required to fulfill the obligation on the reporting date – i.e. the amount the company would realistically have to pay on this day to meet the obligation or transfer it to a third party.

Long-term accruals are discounted at a pre-tax interest rate, provided that the resulting effect is significant. In the case of discounting, the increase in accruals over time is recorded as financial expenditure.

Liabilities resulting from a possible obligation caused by a past event and the existence of which is conditioned by the occurrence or non-occurrence of one or more uncertain future developments, over which the company does not have complete control, are reflected in the appendix as contingent liabilities. Such liabilities can also be the result of a current obligation that was brought about by a past event but was not reported for one of the following reasons:

- (a) The outflow of resources with economic benefit is rendered unlikely by the fulfillment of this obligation
- (b) A reliable estimate of the amount of the obligation is not possible

No contingent liability is reported if an outflow of resources with economic benefit is unlikely.

## Financial liabilities

Financial liabilities are divided into the following categories:

- Financial liabilities held for trading
- Other financial liabilities

The financial liabilities reported in the consolidated financial statement of the SIS Group have been classified as other liabilities.

When financial liabilities are first recorded they are recognized at the acquisition cost corresponding to the current value of the consideration; transaction costs are included. Following their initial reporting, interest-bearing loans are valued at amortized cost using the effective interest method. This method is also employed to record profits and losses in the context of the amortization as well as in the case of write-offs.

Financial liabilities are no longer reported once they have been amortized – i.e. when the obligations specified in the contract have been repaid, annulled or discontinued.

## Employee benefits

### Contribution-based plans

Contribution-based plans exist for Executive Board members, directors and senior employees, specifically pension commitments in the form of an inter-company pension fund. The company pays fixed monthly amounts into the pension fund. The payments are recognized in profit and loss in the year in which they are made. The same applies to expenditure for state pension schemes.

### Share options

The employees of the Group (including managers) receive share-based remuneration in the form of equity instruments (known as equity-settled share-based transactions).

The associated costs of equity instruments granted after November 7, 2002, are reported at the fair value of the equity instruments at the time of their granting. The fair value is determined on the basis of a suitable option pricing model (see appendix item 13 for details).

The expenses resulting from the granting of equity instruments and the corresponding increase in equity capital are reported for the period in which the exercise or payment conditions must be met (known as the vesting period). This period ends on the day of the first exercise option, that is the time at which the relevant employee gains irrevocable entitlement. The cumulative expenses for the granting of equity instruments reported before the first exercise option on every reporting date reflect both the expired portion of the vesting period and the number of equity instruments which, based on the Group's best estimates, will become exercisable at the end of the vesting period. The amount recognized in profit and loss reflects the development of the cumulative expenses recorded at the start and end of the reporting period.

No expenses are recorded for remuneration entitlements that do not become exercisable. This excludes entitlements the exercisability of which depends on the fulfillment of specific market conditions. These are considered exercisable irrespective of the fulfillment of the relevant market conditions, provided that all other payment conditions are met.

The dilutive effect of outstanding share options is reflected as additional dilution in the calculation of the net earnings per share (see appendix item 24 for details).

### Partial retirement

The obligations resulting from partial retirement agreements are calculated on an actuarial basis and reported as deferred expenses.

### Government grants

Government grants are reported if an adequate level of assurance exists that these will be paid out and that the company meets the associated conditions. Expenditure-based grants are recorded as income over the period required to offset them against the expenditure to be compensated. Grants issued for an asset are reflected in the consolidated financial statement as passive deferred income, which is liquidated in equal annual installments over the expected useful life of the relevant asset.

## Recognition of revenue and income

### Sale of goods and products

Revenue is recognized in accordance with IAS 18 if the following cumulative conditions are met:

- (a) The SIS Group has transferred the relevant risks and opportunities relating to the ownership of the sold goods and products to the buyer.
- (b) The SIS Group retains neither a continuous right of disposal, as is usually the case with beneficial ownership, nor effective control over the sold items and rights.
- (c) The revenue amount can be reliably determined.
- (d) it is sufficiently probable that the company will gain economic benefit from the sale.
- (e) The incurred or outstanding costs connected with the sale can be reliably determined.

Based on the principle of period adjustment, as described in IAS 18, income and expenses relating the same transaction or event are reported simultaneously.

### Interest income

Interest is recognized on a time proportion basis taking the effective yield of the asset into account.

### Dividends

Dividends are recognized in profit and loss when the legal claim to payment arises.

### Taxes

The actual tax refund claims and tax liabilities for current and past periods are valued at the amount expected to be paid to or received from the tax authorities. The calculation of this amount is based on the tax rates and legislation applicable on the reporting date.

Actual taxes relating to items recognized directly in equity capital are not reported in the income statement but instead recorded under equity capital.

Deferred taxes are calculated by applying the balance sheet liability method to all temporary differences existing on the reporting date between the valuation of an asset or liability in the balance sheet and the relevant taxable value. Deferred taxes are reported for all taxable temporary differences. The following exceptions apply in this case:

- Deferred tax is not recognized if it arises from the initial recognition of a goodwill, asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the period result under commercial law nor taxable profit or loss.
- Deferred tax arising from taxable temporary differences relating to interests in subsidiaries and affiliated companies is not recognized if the sequence of the reversal of these temporary differences can be controlled, and if it is unlikely that the temporary differences will be reversed in the near future.

Deferred tax claims are recognized for all deductible temporary differences, unused tax losses carried forward and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be offset. The following exceptions apply in this case:

- Deferred tax claims from deductible temporary differences are not recognized if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither the period result under commercial law nor taxable profit or loss.
- Deferred tax claims from deductible temporary differences relating to interests in subsidiaries, affiliated companies and joint ventures are only recognized to the extent that it is probable that the temporary differences will be reversed in the near future, and that a sufficient taxable result will be available against which the deductible temporary differences can be offset.

The book value of deferred tax claims is checked on every reporting date and written off such that it is no longer probable that a sufficient taxable result will be available against which the deferred tax claim can be at least partially offset. Unrecognized deferred tax claims are checked on every reporting date and reported to the extent that it is probable that a future taxable result will enable the recognition of the deferred tax claim.

Deferred tax claims and liabilities are reported on the basis of the tax rates expected to apply in the period in which an asset is recognized or a liability covered. The tax rates (tax legislation) valid on the reporting date are applied in this case. Future tax rate changes must be taken into account on the reporting date if material conditions exist in the context of a legislative procedure. Deferred taxes relating to items recognized directly in equity capital are not reported in the income statement but instead recorded under equity capital.

Deferred tax claims and deferred tax liabilities are offset if the Group has a legally enforceable right to offset current tax assets and current tax liabilities and these relate to income taxes levied by the same taxation authority on the same taxable entity.

### Sales tax

Sales revenue, expenses and assets are recorded after deduction of sales tax, with the following exceptions:

- If the sales tax incurred from the purchase of assets or services cannot be levied by the tax authority, it is recorded as part of the asset's manufacturing costs or included in the expenses.
- Receivables and liabilities are reported with the included sales tax.

The sales tax refunded or collected by the tax authority is entered under receivables or liabilities in the consolidated financial statement.

### Lease agreements

Whether an agreement constitutes or contains a lease agreement is determined on the basis of its economic content and requires an assessment as to whether the fulfillment of a contractual agreement depends on the utilization of a specific asset or assets and whether the agreement grants a right of use for the relevant asset(s).

In the case of finance leases in which all risks and opportunities relating to the ownership of the leased item are transferred to the Group, the leased item is capitalized upon conclusion of the lease agreement. The leased item is reported at fair value or at the cash value of the minimum lease payments, if the latter value is lower. Lease payments are split into financial expenses and the repayment portion of the residual debt such that a constant interest rate is ensured for the residual lease debt over the entire term of the lease. Financial expenses are immediately recorded in profit and loss.

If the transfer of ownership to the Group at the end of the lease term is not sufficiently certain, the capitalized leased items are fully depreciated over the shorter of the expected useful life and the term of the lease agreement.

Lease payments for operating leases are recognized as expenses in profit and loss on a straight-line basis over the entire lease term.

## **Risk management, derivative financial instruments and hedging relationships**

### **Default and liquidity risk**

The Group seeks to ensure that sufficient funds and irrevocable credit lines are available to meet its financial obligations over the next few years. For this purpose, the company has access to credit lines to the value of €4.72 million (2009: €6.71 million), of which €2.766 million are in the form of current account credit. The company also has access to contingent capital to the value of €5.193 million, of which €3 million are reserved for the issuance of convertible bonds. Authorized capital as at 12/31/2010 amounts to €16.565 million (12/31/2009: €0k).

Default risks and the possible danger of a contract partner not meeting his payment obligations are addressed by means of loan commitments, credit lines and control measures. Where reasonable, the company obtains collateral in the form of rights to securities or concludes compensation agreements. The maximum default risk corresponds to the value of the financial items capitalized in the balance sheet.

### **Exchange rate risk**

Most of the Group's business transactions are concluded in euro, which greatly minimizes exchange rate risks and thus negates the need for significant safeguards. While the foreign currency risks are reduced by the independent operations of PSS.

### **Interest rate risks and hedging**

The Group faces a risk of fluctuating market interest rates, resulting mainly from long-term financial liabilities subject to variable interest rates. This risk is greatly alleviated by the procurement of fixed rate loans or the use of derivative financial instruments (interest rate swaps) in the case of variable loans.

Derivative financial instruments are recognized at fair value upon contract conclusion and in subsequent periods. They are reported as assets if their fair value is positive and as liabilities if it is negative.



Profits or losses resulting from changes to the fair value of derivative financial instruments that do not meet the criteria of hedge accounting are immediately reflected in profit and loss.

The fair value of interest swap contracts is determined on the basis of the market value of similar instruments.

On December 31, 2010, and the same date in 2009, the SIS Group merely used hedging instruments to safeguard cash flows.

In accordance with the strict regulations for hedge accounting, these instruments were recognized as follows:

The effective portion of the profit or loss from a hedging instrument is recorded directly in equity capital, while the ineffective portion is immediately reflected in profit and loss.

The amounts entered in equity capital are reposted to profit and loss in the period in which the hedged transaction affects the result – e.g. when reporting hedged financial income or expenses or when completing an expected sale. If the use of hedging instruments results in the recognition of a non-financial asset or liability, the amounts entered in equity capital become part of the acquisition costs at the time when the non-financial asset or liability is recognized.

If the occurrence of a proposed transaction or fixed commitment is no longer expected, the amounts entered in equity capital are transferred to profit and loss. When the hedging instrument expires, or is sold, terminated or exercised without the hedge being replaced with or rolled over to another hedge, the amounts entered in equity capital remain here as separate items until such time that the expected transaction or fixed commitment occurs. The same applies if the relevant hedging instrument is found to no longer meet the criteria of hedge accounting.

## Segments

The SIS Group is controlled through the monitoring of the financial performance of its individual legal units, based specifically on earnings before interest and taxes as per the German Commercial Code (HGB). The results of SIS and its subsidiaries are determined and processed on a monthly basis before being analyzed by the Executive Board. These business units do not represent segments as defined by IFRS 8. The assets and liabilities of the companies are not included in regular reporting. The reported results are made available to the Supervisory Board in advance of its meetings.

## Time of publication approval

The SIS Executive Board drew up the consolidated financial statement for the period ending December 31, 2010 on 14.03.11 before submitting it to the Supervisory Board for approval.

### 3. Liquid funds

€ thousands	2010	2009
Cash on hand	4	2
Bank balances	14,600	17,100
	<b>14,604</b>	<b>17,102</b>

Bank balances are subject to variable interest rates for money at call. The fair value of liquid funds is €14,604 million (2009: €17,102 million).

As at December 31, 2010, the Group was in possession of unused credit lines, for which all conditions of use had been met, to the value of €4.174 million (2009: €6.260 million). Money market and current account credits in use on December 31, 2010 amounted to €546,000 (2009: €450,000).

As at December 31, 2010, liquid funds to the value of €600,000 are serving as loan collateral. Additional liquid funds amounting to €653,000 have been designated as contract performance security.

### 4. Accounts receivable

€ thousands	2010	2009
Accounts receivable	6,207	4,972
Less allowances for doubtful accounts	-62	-104
	<b>6,145</b>	<b>4,868</b>

Accounts receivable are non-interest-bearing and are generally due within 30–90 days.

Allowances for doubtful accounts resulting from the sale of goods amount to €62,000 (2009: €104,000), which is reflected in profit and loss as expenditure of €62,000 (2009: €44,000) and earnings of €14,000 (2009: €57,000). The amount of these allowances is based on past bad debt losses.

The development of the adjustment account is as follows:

€ thousands	Value adjusted
<b>As at January 1, 2009</b>	<b>331</b>
Allocation to expenses	44
Utilization	-214
Closing	-57
<b>As at December 31, 2009</b>	<b>104</b>
Allocation to expenses	62
Utilization	-90
Closing	-14
<b>As at December 31, 2010</b>	<b>62</b>

As at December 31, 2010 (December 31, 2009), the age structure of accounts receivables is as follows:

	Total	Neither overdue nor impaired	Overdue but not impaired				
			< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	> 120 days
<b>€ thousands</b>							
<b>2010</b>	<b>6,145</b>	<b>3,918</b>	<b>1,819</b>	<b>200</b>	<b>142</b>	<b>3</b>	<b>63</b>
<b>2009</b>	<b>4,868</b>	<b>3,542</b>	<b>753</b>	<b>176</b>	<b>46</b>	<b>49</b>	<b>302</b>

## 5. Inventories

<b>€ thousands</b>	<b>2010</b>	<b>2009</b>
Finished products and goods at acquisition and manufacturing cost	2,916	1,944
Unfinished goods at manufacturing cost	4,968	3,118
Raw, auxiliary and working materials at acquisition cost	3,814	2,638
Downpayments made on inventories	6	0
<b>Total</b>	<b>11,704</b>	<b>7,700</b>

The depreciation of inventories reported as expenditure amounts to €0k (2009: €272,000). This expenditure was shown under material costs in the previous year.

## 6. Other Short-Term Assets

<b>€ thousands</b>	<b>2010</b>	<b>2009</b>
Prepayments and accrued income	770	845
Receivables from investment grants and subsidies	315	80
Sales tax claims	208	191
Reinsurance claims	84	172
Receivables from R&D grants	0	175
Other	79	90
	<b>1,456</b>	<b>1,553</b>

## 7. Tangible Assets

€ thousands	Land and buildings	Techn. equipment and machinery	Office furniture and equipment	Downpayments and assets under construction	2009 Total
<b>Acquisition costs</b>					
<b>January 1, 2009</b>	<b>14,169</b>	<b>21,857</b>	<b>4,041</b>	<b>1,072</b>	<b>41,139</b>
Additions	84	1,019	316	1,021	2,440
Disposals	-4	-108	-91	-1	-204
Rebookings	11	1,353	56	-1,420	0
Currency differences	0	-5	-5	0	-10
<b>December 31, 2009</b>	<b>14,260</b>	<b>24,116</b>	<b>4,317</b>	<b>672</b>	<b>43,365</b>
<b>Accumulated depreciation</b>					
<b>January 1, 2009</b>	<b>1,840</b>	<b>9,223</b>	<b>2,757</b>	<b>0</b>	<b>13,820</b>
Depreciation	417	2,314	342	9	3,082
Disposals	0	-109	-59	0	-168
Rebookings	0	150	-150	0	0
Currency differences	1	-21	13	0	-7
<b>December 31, 2009</b>	<b>2,258</b>	<b>11,557</b>	<b>2,903</b>	<b>9</b>	<b>16,727</b>
<b>Net book value January 1, 2009</b>	<b>12,329</b>	<b>12,634</b>	<b>1,284</b>	<b>1,072</b>	<b>27,319</b>
<b>Net book value December 31, 2009</b>	<b>12,002</b>	<b>12,559</b>	<b>1,414</b>	<b>663</b>	<b>26,638</b>

€ thousands	Land and buildings	Techn. equipment and machinery	Office furniture and equipment	Downpayments and assets under construction	2010 Total
<b>Acquisition costs</b>					
<b>January 1, 2010</b>	<b>14,260</b>	<b>24,116</b>	<b>4,317</b>	<b>672</b>	<b>43,365</b>
Additions from FST acquisition	0	124	239	0	363
Additions	51	289	545	2,339	3,224
Disposals	0	-2,433	-1,212	-23	-3,668
Rebookings	0	545	52	-618	-21
Currency differences	0	19	19	0	38
<b>December 31, 2010</b>	<b>14,311</b>	<b>22,660</b>	<b>3,960</b>	<b>2,370</b>	<b>43,301</b>
<b>Accumulated depreciation</b>					
<b>January 1, 2010</b>	<b>2,258</b>	<b>11,557</b>	<b>2,903</b>	<b>9</b>	<b>16,727</b>
Depreciation	420	2,190	506	0	3,116
Disposals	0	-2,417	-1,137	-4	-3,558
Rebookings	0	107	-107	0	0
Currency differences	0	12	15	0	27
<b>December 31, 2010</b>	<b>2,678</b>	<b>11,449</b>	<b>2,180</b>	<b>5</b>	<b>16,312</b>
<b>Net book value January 1, 2010</b>	<b>12,002</b>	<b>12,559</b>	<b>1,414</b>	<b>663</b>	<b>26,638</b>
<b>Net book value December 31, 2010</b>	<b>11,633</b>	<b>11,211</b>	<b>1,780</b>	<b>2,365</b>	<b>26,989</b>

## 8. Intangible Assets and Goodwill

€ thousands	Software	Goodwill	Develop-ments	Downpay-ments	2009 Total
<b>Acquisition costs</b>					
<b>January 1, 2009</b>	<b>1,094</b>	<b>11,142</b>	<b>6,000</b>	<b>14</b>	<b>18,250</b>
Additions	51	0	0	0	51
Disposals	-1	0	0	0	-1
Rebookings	14	0	0	-14	0
Currency differences	0	0	0	0	0
<b>December 31, 2009</b>	<b>1,158</b>	<b>11,142</b>	<b>6,000</b>	<b>0</b>	<b>18,300</b>
<b>Accumulated depreciation</b>					
<b>January 1, 2009</b>	<b>950</b>	<b>9,296</b>	<b>5,588</b>	<b>0</b>	<b>15,834</b>
Depreciation (scheduled)	67	0	23	0	90
Impairments	0	0	0	0	0
Disposals	0	0	0	0	0
Currency differences	0	0	0	0	0
<b>December 31, 2009</b>	<b>1,017</b>	<b>9,296</b>	<b>5,611</b>	<b>0</b>	<b>15,924</b>
<b>Net book value January 1, 2009</b>	<b>144</b>	<b>1,846</b>	<b>412</b>	<b>14</b>	<b>2,416</b>
<b>Net book value December 31, 2009</b>	<b>141</b>	<b>1,846</b>	<b>389</b>	<b>0</b>	<b>2,376</b>

€ thousands	Orders on hand	Software	Goodwill	Develop-ments	Downpay-ments	2010 Total
<b>Acquisition costs</b>						
<b>January 1, 2010</b>	<b>0</b>	<b>1,158</b>	<b>11,142</b>	<b>6,000</b>	<b>0</b>	<b>18,300</b>
Additions from FST acquisition	288	41	1,125	672	0	2,126
Additions	0	235	0	530	209	974
Disposals	0	-79	0	0	0	-79
Rebookings	0	21	0	0	0	21
Currency differences	0	0	0	0	0	0
<b>December 31, 2010</b>	<b>288</b>	<b>1,376</b>	<b>12,267</b>	<b>7,202</b>	<b>209</b>	<b>21,342</b>
<b>Accumulated depreciation</b>						
<b>January 1, 2010</b>	<b>0</b>	<b>1,017</b>	<b>9,296</b>	<b>5,611</b>	<b>0</b>	<b>15,924</b>
Depreciation (scheduled)	108	95	0	96	0	299
Impairments	0	0	0	0	0	0
Disposals	0	-79	0	0	0	-79
Currency differences	0	0	0	0	0	0
<b>December 31, 2010</b>	<b>108</b>	<b>1,033</b>	<b>9,296</b>	<b>5,707</b>	<b>0</b>	<b>16,144</b>
<b>Net book value January 1, 2010</b>	<b>0</b>	<b>141</b>	<b>1,846</b>	<b>389</b>	<b>0</b>	<b>2,376</b>
<b>Net book value December 31, 2010</b>	<b>180</b>	<b>343</b>	<b>2,971</b>	<b>1,495</b>	<b>209</b>	<b>5,198</b>

Goodwill as at December 31, 2010 relates to Lewicki Microelectronic GmbH, Oberdischingen (hereafter "LME") in the amount of €1.846 million (December 31, 2009: €1.846 million) as well as First Sensor Technology GmbH (hereafter "FST") in the amount of €1.125 million (December 31, 2009: €0k).

### LME goodwill

The acquisition of all LME shares in the business year 2000 resulted in an SIS goodwill of €1.846 million.

In accordance with IAS 36, the goodwill of LME was reviewed on December 31, 2010 in view of a possible impairment based on the value in use, whereby the following assumptions were made:

- Moderate decline in sales of 6% between 2010 and 2014.
- In the four-year analysis from 2011 to 2014, planning was based on a significantly lower gross profit margin as well as a slight increase in personnel and depreciation costs, thus resulting in a much smaller EBIT margin. Constant depreciation and reinvestments to the same amount were planned as of 2014.
- No specific growth rates were assumed in the projection variables for 2014 (terminal value).
- Discount factor of 5.96% (2009: 7.06%) after taxes and 6.86% (2009: 8.05%) before taxes, based on WACC method.

This analysis did not give rise to necessary impairments in the 2010 business year. Furthermore, no extraordinary depreciation took place for LME in 2009.

### **FST goodwill**

In the 2010 business year, the SIS Group acquired 100% of the shares of FST, which resulted in a goodwill of €1.125 million. A detailed description of the acquisition of FST is provided in the "Subsidiaries" section under item 2 "Accounting Policies and Valuation Methods".

In accordance with IAS 36, the goodwill of FST was reviewed on December 31, 2010 in view of a possible impairment based on the value in use, whereby the following assumptions were made:

- Average sales growth of 9.7% p.a. as of 2010.
- In the four-year analysis from 2011 to 2014, planning was based on a slightly disproportionate increase in expenditure with regard to material costs and depreciation. Personnel and operating expenses, on the other hand, are only to increase by an average of 2% p.a.
- As a result, the EBIT will rise significantly as of 2012, The overall increase over the planning period will be 38% p.a.
- No specific growth rates were assumed in the projection variables for 2014 (terminal value).
- Discount factor of 5.96% after taxes and 6.86% before taxes, based on WACC method.

This analysis did not give rise to necessary impairments in the 2010 business year.

### **Orders on hand**

The acquisition of 100% of the shares of FST in 2010 also resulted in orders on the hand to the value of €288,000, which is expected to be depreciated on a straight-line basis over a three-year period by the end of 2012. Depreciation of €108,000 was carried out in the 2010 business year.

### **Development assets**

The development assets reported in the context of the acquisition of MPD will be subject to scheduled depreciation over a 20-year period starting from their initial marketing. The calculation of the value in use of the reported goodwill as at December 31, 2008 also involved a review of the

valuation of the reported development assets as well as those already impaired as a result of scheduled depreciation. This resulted in extraordinary depreciation to the value of €4.988 million. The residual value of €412,000 has since been subject to scheduled depreciation over the remaining useful life.

The business combination with FST resulted in the recognition of intangible assets to the value of €672,000 relating to in-house developments and technologies of FST. The specific items are listed below:

- Industrial line	€264,000).
- Harsh environmental line	€111,000).
- K series	€238,000).
- High-pressure sensors	€59,000).

The risk-adjusted discount rate which was used as the basis for the valuation of the intangible assets was 8%. The intangible assets will be depreciated over a period of seven years.

The development expenditure capitalized in 2010 in accordance with IAS 38.57 amounted to €530,000. No development costs were capitalized in 2009 as the relevant conditions for capitalization were not met. The reported research and development costs amounted to €3.197 million in 2010 and €2.95 million in 2009.

## 9. Shares in Affiliated Companies

In 2010, the following shareholdings were reported as affiliated companies at equity:

€thousands	Interest	2010	2009
Heimann Sensor GmbH	24.9 %	159	124
Vereta GmbH	24.9 %	747	0
		<b>906</b>	<b>124</b>

### a) Heimann Sensor GmbH

As at December 31, 2010, the interest in Heimann Sensor GmbH remained unchanged at 24.9% (December 31, 2009: 24.9 %). The average number of employees in the 2010 business year was 25 (2009: 27).

€thousands	2010	2009
<b>Share in balance sheet of affiliated companies</b>		
- Short-term assets	517	411
- Long-term assets	203	101
- Short-term liabilities	543	378
- Long-term liabilities	0	0
- Accrued investment grants	16	10
- Equity capital	161	124
<b>Share in sales and earnings of affiliated companies</b>		
- Sales revenue	1,141	796
- Result	35	-1
<b>Book value of shares in affiliated companies</b>	<b>159</b>	<b>124</b>

b) Vereta GmbH

As at December 31, 2010, SIS holds a 24.9% stake in Vereta GmbH (December 31, 2009: 0 %). The average number of employees in the 2010 business year was 6.

€thousands	2010
<b>Share in balance sheet of affiliated companies</b>	
- Short-term assets	22
- Long-term assets	14
- Short-term liabilities	162
- Equity capital	-126
<b>Share in sales and earnings of affiliated companies</b>	
- Sales revenue	36
- Result	-25
<b>Book value of shares in affiliated companies</b>	<b>747</b>

## 10. Accruals

€thousands	Warranty	Unfavorable contracts	Other	Total
<b>December 31, 2009</b>	<b>539</b>	<b>143</b>	<b>70</b>	<b>752</b>
Short-term	431	48	70	549
Medium/long-term	108	95	0	203
Additions from FST acquisition	44	66	65	175
Allocation	231	117	70	418
Consumption	-240	-98	-132	-470
Closing	-127	0	-3	-130
<b>December 31, 2010</b>	<b>447</b>	<b>163</b>	<b>70</b>	<b>680</b>
Short-term	348	97	70	515
Medium/long-term	99	66	0	165

Accruals were passivated for warranty obligations resulting from products sold in the past two years. The assessment is made on the basis of empirical data for complaints and repairs. The majority of these costs are expected to be incurred in the next business year, while the entire passivated amount will be incurred within two years of the reporting date. The assumptions used to calculate the warranty provisions are based on current sales levels as well as currently available information on complaints relating to sold products within the two-year warranty period.

Among other things, accruals for unfavorable contracts are based on the risk that the unused offices of the former SIS headquarters may not be sublettable at the paid rent. The risk relating to the timing of sublet income was also considered. In combination, these risks are expected to result in the utilization of a third of the provision within a one-year period, and thus two thirds in the long-term. When acquiring FST, SIS took on a contract with a negative gross margin, for which a corresponding provision was created.



## 11. Other short-term liabilities

€thousands	2010	2009
Personnel commitments	782	634
Deferred income	105	253
Customer bonuses	154	0
Liabilities from outstanding invoices	440	334
Market value of interest rate hedging instruments	133	209
Liabilities from income and church tax, social security	299	208
Creation of tax declarations, annual audits	133	115
Contractual obligations of related companies	300	0
Other	637	554
	<b>2,983</b>	<b>2,307</b>

Other short-term liabilities are non-interest-bearing and short-term in nature.

## 12. Short- and Long-Term Interest-Bearing Loans

December 31, 2010 €thousands	Total	Short-term Up to 1 year	Long-term	Of which 1 – 5 years	Of which > 5 years
<b>Secured</b>					
Debts from finance lease and hire purchase agreements	1,235	675	560	560	0
<b>Bank loans</b>					
Loan €1.5 million I	563	563	0	0	0
Loan €1.5 million II	563	563	0	0	0
Loan €3 million I	2,550	300	2,250	1,200	1,050
Loan €1.5 million VI	1,125	250	875	875	0
Loan €3 million II	2,143	429	1,714	1,714	0
Loan €3.5 million	2,068	267	1,801	1,801	0
Loan €2 million III	2,000	667	1,333	1,333	0
Loan €2 million II	400	400	0	0	0
Money market loans	545	545	0	0	0
	<b>13,192</b>	<b>4,659</b>	<b>8,533</b>	<b>7,483</b>	<b>1,050</b>

December 31, 2009 €thousands	Total	Short-term Up to 1 year	Long-term	Of which 1 – 5 years	Of which > 5 years
<b>Secured</b>					
Debts from finance lease and hire purchase agreements	1,951	784	1,167	1,167	0
<b>Bank loans</b>					
Loan €1.5 million I	750	750	0	0	0
Loan €1.5 million II	750	750	0	0	0
Loan €2 million I	2,000	2,000	0	0	0
Loan €3 million I	2,850	300	2,550	1,200	1,350
Loan €1.5 million VI	1,375	250	1,125	1,000	125
Loan €3 million II	2,571	428	2,143	1,715	428
Loan €2 million II	800	400	400	400	0
Loan €3.5 million	0	0	0	0	0
Money market loans	450	450	0	0	0
	<b>13,497</b>	<b>6,112</b>	<b>7,385</b>	<b>5,482</b>	<b>1,903</b>

## Finance lease agreements

The SIS Group has entered into finance lease and hire purchase agreements for a range of technical machinery, office furniture and equipment. The resulting cash values of the future minimum payments for finance lease and hire purchase agreements are as follows:

December 31, 2010 €thousands	Minimum lease payments	Cash value of minimum lease payments
Within one year	696	675
Between one and five years	625	560
<b>Total minimum lease payments</b>	<b>1,321</b>	<b>1,235</b>
Less interest expenses based on discounting	-86	0
<b>Cash value of minimum lease payments</b>	<b>1,235</b>	<b>1,235</b>

December 31, 2009 €thousands	Minimum lease payments	Cash value of minimum lease payments
Within one year	813	784
Between one and five years	1,292	1,167
<b>Total minimum lease payments</b>	<b>2,105</b>	<b>1,951</b>
Less interest expenses based on discounting	-154	0
<b>Cash value of minimum lease payments</b>	<b>1,951</b>	<b>1,951</b>

As at December 31, 2010, the net book value of technical equipment and machinery financed through lease agreements is €1.297 million (previous year: €1.989 million).

## Loans for €1.5 million I and II

The SIS Group took out loans on September 30, 2005 to finance its acquisition of the MPD shares. As at December 31, 2010, these loans are as follows:

1. Tranche of €0.563 million, variable interest rate (3-month Euribor + normal bank margin), maturity in 2013
2. Tranche of €0.563 million, variable interest rate (3-month Euribor + normal bank margin), maturity in 2013

Quarterly repayments have been arranged for the long-term bank loans, in each case at quarter end.

The loans are secured through pledging of the company's shareholdings in MPD.

The loan contracts feature a secondary agreement, whereby SIS must comply with the following financial covenants:

Minimum equity ratio:	equity at least 30% of total assets
Debt service cover:	EBITDA to debt service ratio of least 1.75

If the above obligations are not met, the creditors reserve the right to request or increase financial securities. Extraordinary termination is also possible. As in the previous year, the Group failed to meet the required level of capital cover. As a result, the full outstanding loans have been reported under short-term borrowings.

For tranches 1 and 2 of the long-term bank loans, SIS has undertaken to agree appropriate interest hedging in the form of an interest rate swap on the basis of the master agreement for

financial futures. As agreed with the bank, the interest hedge will match the loan amount and run until December 31, 2013. During this period, the interest hedging instruments may only be sold or used otherwise with the prior agreement of the bank. The interest hedging instruments are described under item 30.

#### **Loan for €2 million I**

In December 2007, SIS signed a promissory note to the value of €2 million to finance the new-build project of Silicon Sensor GmbH. The loan had a term of three years and was fully paid off in 2010. The loan had a variable interest rate based on the three-month EURIBOR (plus margin). The loan was not secured.

SIS had agreed an interest hedge for the promissory note in the form of an interest rate swap. The interest hedging instrument is described under item 30.

#### **Loan for €3 million I**

Over the course of 2008, the Group borrowed funds totaling €3 million in multiple tranches to finance the sensor factory in Berlin. The loan is to be repaid by June 30, 2009 in bi-annual installments of €150,000. The interest rate is fixed at 4.7%. The loan was refinanced by the lending bank in the context of the ERP regional development scheme.

Collateral is provided in the form of a land charge to the value of €3 million. SIS is also required to maintain an equity capital ratio of at least 25%, based on the HGB-compliant financial statement. If the above obligations are not met, the creditors reserve the right to request or increase financial securities, while extraordinary termination is also possible.

#### **Loan for €1.5 million VI**

This loan was taken out to finance the Berlin sensor factory and is to be repaid by 2015 in bi-annual installments of €125,000. The loan has an interest rate of 5.25%

with collateral provided in the form of a land charge. SIS is also required to maintain an equity capital ratio of at least 25%, based on the HGB-compliant financial statement. If the above obligations are not met, the creditors reserve the right to request or increase financial securities.

#### **Loan for €3 million II**

On December 8, 2008, a loan agreement for €3 million running until December 31, 2015 was concluded to help finance the build of the new sensor factory in Berlin. Constant quarterly repayments were agreed to pay off the loan. The interest rate is based on the EURIBOR for the relevant fixed interest period plus an additional margin. The interest rate risk is hedged by means of an interest rate swap (appendix item 30). The loan was refinanced by the lending bank in the context of the ERP regional development scheme.

Collateral is provided in the form of a land charge to the value of €3 million.

### Loan for €3.5 million

In an agreement dated 12/10/2009, the company took out a dedicated loan of €3.476 million for the purchase of machines, equipment and furnishings as per the 2010 investment plan. Collateral is provided through the fiduciary transfer of the relevant assets – i.e. the machines, equipment and furnishings to be purchased. The loan is to be repaid by 12/30/2017 and has a fixed interest rate of 5.69% p.a. until 12/30/2012. As at the reporting date, a sum of €2.068 million had been repaid under the terms of this agreement.

### Loan for €2 million III

As a means of corporate financing and to repay the loan of €2 million by the end of 2010, the company took out a loan to the value of €2 million in an agreement dated 11/12/2010. The loan is to be repaid by the end of 2013, with quarterly installments of €167,000 due as of January 1, 2011. Collateral is provided to the bank in the form of a pledged account balance totaling 30% to 15% of the loan amount based on the company's specified rating. As at the reporting date, 30% of the loan amount (€600,000) had been pledged as collateral. Furthermore, the company must maintain an equity ratio of at least 30%, based on the consolidated financial statement, as well as a debt/equity ratio of no more than 3.5 years. The loan is subject to a variable interest rate (EURIBOR) plus an additional margin.

### Loan for €2 million II

This amortization loan is to be repaid over a five-year period in constant quarterly installments starting on March 30, 2007.

No physical securities are in place. The loan contract features a secondary agreement, whereby MPD must maintain a minimum equity ratio of 35% of total assets.

If the above obligations are not met, the creditors reserve the right to request or increase financial securities.

The loan is subject to a variable interest rate (EURIBOR) plus an additional margin. To secure the interest rate, MPD has agreed to the establishment of an interest rate cap. The interest hedging instrument is described under item 30.

## 13. Obligations Resulting from Employee Benefits

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### Pension plans

As well as providing funds totaling €971,000 to state pension schemes (2009: approx. €857,000), the company also made payments to contribution-based plans for the SIS Board members, directors of subsidiaries and senior employees amounting to €159,000 (2009: €197,000).

### Stock option plan

Two stock option plans are currently in place, which grant options for the procurement of ordinary shares to the company workforce as well as to the SIS Executive Board. The first of these plans was set up in 2006 ("SOP 2006") and the other in 2009 ("SOP 2009"). The exercise price per share corresponds to the market price of these shares during a five-day period before the granting

of options at the Frankfurt stock exchange. The maximum term (waiting period plus exercise period) for an option is seven years in the case of SOP 2006 and eight years for SOP 2009.

Shares acquired following the exercising of options have full voting and dividend rights.

Share options can only be exercised after a waiting period of two (SOP 2006) or three years (SOP 2009) from the issue date. Exercising of share options is subject to the following conditions:

- (a) The exercise hurdle must have been reached at least once within a period of six weeks before the exercising of options (exercise window). The exercise hurdle is deemed reached if the closing price of the company shares in the XETRA trading system (or a comparable successor system) exceeds the exercise price by more than 20% (SOP 2006) or 30% (SOP 2009) on five (SOP 2006) or ten (SOP 2009) successive trading days.
- (b) The options granted by SOP 2006 must not be exercised in the two weeks preceding the announcement of quarterly results or in the period between business year-end and the company's annual general meeting, in which the appropriation of the previous year's results is decided. This also applies if an exercise window should arise during these blocking periods.

The options granted by SOP 2009 must not be exercised in the three weeks preceding the announcement of quarterly results or in the period between fiscal year-end and the company's annual general meeting, in which the appropriation of the previous year's results is decided. This also applies if an exercise window should arise during these blocking periods.

- (c) SOP 2006 has a three-year term, during which a maximum of 233,000 subscription rights are issued in annual tranches to all entitled parties from the total volume of the stock option plan. In any given year, the subscription rights can only be issued within a period of nine months following the announcement of the past year's results by the Executive Board. In the 2006 business year, 130,000 subscription rights were granted to the workforce, senior employees and board members, while 100,000 subscription rights were issued in 2007. The issue price corresponds to the average price of the company share in the XETRA trading system (or a comparable successor system) during the five trading days preceding the date of rights issue, whereby the minimum price is dictated by the proportionate value of the share capital that is attributable to a single company share. The average price of the options issued on June 29, 2006 was €9.33. The average price of the options issued on July 11, 2007 was €18.68.

SOP 2009 has a three-year term, in which a total of 290,000 options may be issued. In the 2010 business year, 130,000 subscription rights (previous year: 160,000) were granted to the workforce, senior employees and Board members. The issue price corresponds to the average price of the company share in the XETRA trading system (or a comparable successor system) during the five trading days preceding the date of rights issue, whereby the minimum price is dictated by the proportionate value of the share capital that is attributable to a single company share. The average price of the options issued on the various dates was as follows: November 17, 2009: €6.02; December 9, 2009: €5.80; August 25, 2010: €7.20.

- (d) The option rights expire at the end of the exercise period – i.e. five years after the end of the two- or three-year waiting period. Options cannot be transferred, unless the beneficiary dies after exercising the granted options. In this case, the beneficiary's heirs are able to exercise the options at the same conditions on a one-time basis. If the employment or directorship contract is terminated by the company or the beneficiary, or if the employment or directorship contract is ended in any other way – for whatever reason – all options not exercisable by the date of termination of the employment or directorship contract will be revoked. This does not apply to the rights granted to Executive Board members, however. Any options to be exercised by the termination date can only be exercised by the beneficiary during the exercise

window following the termination date.

The following table provides an overview of the number of stock options issued over the course of the business year as well as the weighted average exercise prices:

	2010 No.	2010 GDAP	2009 No.	2009 GDAP
Outstanding at beginning of reporting period	396,500	10.21	244,500 <sup>1</sup>	12.86
Granted during reporting period	130,000	7.20	160,000	5.91
Lapsed during reporting period	8,500	4.91	8,000 <sup>1</sup>	4.97
Exercised during reporting period	0	0	0	0
<b>Outstanding at end of reporting period</b>	<b>518,000</b>	<b>9.54</b>	<b>396,500</b>	<b>10.21</b>
Exercisable at end of reporting period	228,000	13.43	236,500	13.12

<sup>1</sup> This includes stock options for 8,000 shares, which were not reported in accordance IFRS 2 as they were granted on or before November 7, 2002. The contractual provisions for these options were not subsequently changed, which is why they do not require recognition in accordance with IFRS 2.

The weighted average remaining term for the options outstanding as at December 31, 2010 is 5.35 years (2008: 5.49 years).

The exercise prices for options outstanding at the end of the reporting period range from €5.80 to €18.68 (2009: €3.55 – €18.68).

The company stock option plans are equity-settled schemes, meaning that the fair value is determined at the time of issue. The following table depicts the parameters of the Black-Scholes model, which served as the basis for the options issued with SOP 2009 in the 2010 business year:

	Issuance of 8/25/2010
Dividend yield (%)	0.00
Expected volatility (%)	18.8 and 23.5
Riskless interest rate (%)	2.18
Expected term of option (years)	3 and 4
Weighted average share price (€)	7.20
Exercise price (€)	7.20
Fair value determined (€)	2.28 and 2.88

The expected volatility is based on the historical data for the assumed option terms. Since SIS is expecting the company share to exceed the exercise hurdle within the option term, this parameter was not reported as impairing the option value.

Personnel expenses reported for 2010 on the basis of issued stock options amounted to €182,000 (previous year: €268,000).

## 14. Deferred Investment Grants

The deferred investment grants relate to government grants to the value of €5.223 million (previous year: €5.525 million). These were awarded, among other things, in the form of investment subsidies for the newly constructed production facilities in Berlin. The awarding of the investment grants is subject to the verification of the executed investment measures, future compliance with the conditions for retaining the subsidized assets as well as the creation of new jobs. The special item in the amount of €308,000 (previous year: €0k) relates to subsidies from

customers for development projects. The resulting deferred income, which is liquidated over the useful life of the subsidized assets, has developed as follows:

€thousands	2010	2009
<b>January 1</b>	<b>5,525</b>	<b>5,890</b>
Granted during business year	608	337
Liquidated affecting net income	602	702
<b>December 31</b>	<b>5,531</b>	<b>5,525</b>

In addition, the company has received credits with a lower interest rate due to the state-subsidized refinancing conditions of the lending bank.

## 15. Subscribed Capital

As at the reporting date of December 31, 2010, the share capital, which is reported as subscribed capital in the balance sheet, amounts to €33.130 million, comprising 6,625,899 individual shares with a par value of €5. As a result, the share capital of SIS has not changed from the previous year.

€thousands	Ordinary shares (issued and deposited)		Share capital	
	2010	2009	2010	2009
<b>January 1</b>	<b>6,626</b>	<b>3,903</b>	<b>33,130</b>	<b>11,710</b>
Issuance of new shares through cash capital increases (March 2009)	0	514	0	1,542
Capital increase from retained earnings	0	0	0	8,835
Issuance of new shares through cash capital increases (Nov. 2009)	0	2,209	0	11,043
Issuance of new shares through exercising of stock options	0	0	0	0
<b>December 31</b>	<b>6,626</b>	<b>6,626</b>	<b>33,130</b>	<b>33,130</b>

### Authorized capital

By resolution of the annual general meeting of June 17, 2010, the Executive Board has been authorized to increase the share capital by €16,564,745 (authorized capital 2010/I). This authorization expires at midnight on June 16, 2015. The capital increase will take the form of new bearer shares issued on a cash or in-kind basis. As at December 31, 2010, the authorized capital remains unchanged.

## Conditional capital

The conditional capital is shown in the following table:

€thousands	2010	2009
Conditional capital I	23	23
Conditional capital II	21	21
Conditional capital IV	699	699
Conditional capital V	3,000	3,000
Conditional capital VI	1,450	1,450
	<b>5,193</b>	<b>5,193</b>

### Conditional capital I and II

Conditional capital I and II were used to grant shares upon exercising of stock options. The stock option plans have expired.

### Conditional capital IV

At the annual general meeting of June 15, 2006, the share capital was increased by up to the nominal sum of €699,000 through the issuance of 233,000 new bearer shares with dividend rights starting from the business year of issue (conditional capital IV). The conditional capital increase is only performed to the extent that the holders of subscription rights, which were issued on the basis of the authorization granted on 15.06.06 in the course of the 2006 stock option plan, exercise these subscription rights. No options were exercised under "conditional capital IV" during the reporting period.

### Conditional capital V (convertible bonds)

At the annual general meeting of June 9, 2009, the share capital was increased by up to the nominal sum of €3,000,000 through the issuance of 600,000 new bearer shares with a nominal value of €5 per share (conditional capital V). The conditional capital increase is used to award shares to holders of convertible bonds when exercising conversion privileges. The authorization to issue convertible bonds ends on June 8, 2014. The new shares issued upon exercising of conversion privileges feature dividend rights starting from the business year of issue. The conditional capital increase is only effective to the extent that the relevant conversion privileges are exercised or that the conversion obligations of such convertible bonds are met. No convertible bonds were issued in the reporting period.

### Conditional capital VI

At the annual general meeting of June 9, 2009, the share capital was increased by up to the nominal sum of €1.45 million through the issuance of 290,000 new bearer shares with dividend rights starting from the business year of issue (conditional capital VI). The conditional capital increase is only performed to the extent that the holders of subscription rights, which were issued on the basis of the authorization granted on June 9, 2009 in the course of the 2009 stock option plan, exercise these subscription rights.

In the 2010 business year, a total of 130,000 share options (2009: 160,000 share options) were issued on the basis of conditional capital VI.



## 16. Reserves

In the business years 2009 and 2010, reserves developed as follows:

€thousands	Share premium	Retained earnings	Unrealized profit/loss	Total
<b>January 1, 2009</b>	<b>16,130</b>	<b>-854</b>	<b>-109</b>	<b>15,167</b>
Agio from cash capital increase (March 2009)	926	0	0	926
Capital increase from retained earnings	-8,835	0	0	-8,835
Agio from cash capital increase (Nov. 2009)	1,104	0	0	1,104
Offsetting of balance sheet loss	-4,588	0	0	-4,588
Capital increase transaction costs	-119	0	0	-119
Share-based remuneration	0	268	0	268
Nett loss from cash flow hedge	0	0	-100	-100
<b>December 31, 2009</b>	<b>4,618</b>	<b>-586</b>	<b>-209</b>	<b>3,823</b>
Offsetting of balance sheet loss	-2,482	0	0	-2,482
Share-based remuneration	0	182	0	182
Net profit from cash flow hedge	0	0	80	80
Deferred tax claim based on cash flow hedge	0	0	39	39
<b>December 31, 2010</b>	<b>2,136</b>	<b>-404</b>	<b>-90</b>	<b>1,642</b>

\* All data includes tax effects

### a) Share premium

The cash capital increases of March/November 2009 raised the capital reserves by the amount in which the subscription price per share exceeds the par value (€2.030 million). No cash capital increase took place in 2010.

#### Capital increase from retained earnings

By resolution of the annual general meeting of June 9, 2009, a capital increase from retained earnings to the value of €8.835 million was carried out, with the funds being taken from the capital reserves. No capital increase took place in 2010.

#### Transaction costs

In 2009, the costs incurred for official fees and consultancy services in the issue of new shares were reflected in retained earnings as a deduction from equity (less any associated income tax benefits).

### b) Retained earnings – stock options

Insofar as it is distributed across the vesting period (time during which the relevant entitlements are accrued), the expenditure resulting from ongoing stock option plans, amounting to €182,000 (same period of previous year: €268,000), was reported under personnel expenses and allocated to retained earnings.

### c) Reserves for unrealized profits/losses

The portion of profit or loss from a cash flow hedge that is qualified as an effective safeguard is recorded in this reserve.

#### Currency adjustment items

A reserve for foreign currency differences (currency adjustment items) is still included under equity capital in the consolidated financial statement. This reserve is used to record differences resulting from the conversion of the financial statement of the foreign subsidiary.

## 17. Sales Revenue

€ thousands	2010	%	2009	%
Domestic	21,928	48.48	18,376	60.83
Europe	15,653	34.61	8,518	28.20
USA	3,576	7.90	1,325	4.39
Other	4,075	9.01	1,988	6.58
	<b>45,232</b>	<b>100.00</b>	<b>30,207</b>	<b>100.00</b>

## 18. Other Operating Income

Other operating income is as follows:

€ thousands	2010	2009
R&D expense grants	300	442
Income from government grants		
• Investment subsidies	514	608
• Investment grants	89	94
Income from other benefits in kind	177	166
Out-of-period income	117	72
Insurance compensation	54	143
Income from release of provisions	130	0
Other	354	441
	<b>1,735</b>	<b>1,966</b>

## 19. Changes in Stocks of Finished and Unfinished Goods

€ thousands	2010	2009
Unfinished goods	906	-294
Finished goods	-143	-232
	<b>763</b>	<b>-526</b>

## 20. Cost of Materials/Purchased Services

Costs for materials and purchased services are as follows:

€thousands	2010	2009
Raw, auxiliary and working materials	15,126	10,172
Purchased services	3,875	1,288
	<b>19,001</b>	<b>11,460</b>

## 21. Personnel Expenses

Personnel expenses are as follows:

€thousands	2010	2009
Wages and salaries	12,955	9,894
Social security and retirement provisions	2,366	1,975
	<b>15,321</b>	<b>11,869</b>

The personnel expenses include outlays of €182,000 (2009: €268,000) for the granting of stock options and €0k (2008: €161,000) relating to the termination of employment contracts.

## 22. Other Operating Expenses

Other operating expenses comprise the following:

€thousands	2010	2009
Occupancy costs	1,288	1,153
Advertising costs	572	479
Vehicle costs	538	458
Maintenance costs	877	560
Auditing and preparation of annual financial statements/legal and consulting fees	890	521
Marketing costs	351	461
Losses from disposal of fixed/current assets	96	197
Value adjustments and write-off of receivables	135	44
Insurance	401	318
Travel costs, corporate entertainment	212	157
Investor relations/public relations costs	158	183
Communication costs	89	76
Outbound freight	20	65
Warranty costs	126	117
Packaging materials, delivery costs and other operating expenses	486	578
Costs of annual general meeting	70	70
Remuneration of Supervisory Board	42	81
Incidental costs of monetary transactions	73	45
Patent costs	61	18
Other	655	711
	<b>7,140</b>	<b>6,292</b>

## 23. Taxes on Income and Earnings

The main contributors to income tax expenses in the business years 2010 and 2009 are as follows:

€ thousands	2010	2009
Actual tax expense	317	0
Adjustments made within the period for actual, out-of-period income tax	436	-185
Income from carryback of losses during period	0	-81
Deferred tax revenue from reversal of temporary differences	-82	-12
<b>Income tax expenditure/revenue reflected in consolidated profit and loss</b>	<b>671</b>	<b>-278</b>

The reconciliation between the income tax expenditure and the product of the period result in the balance sheet and the applicable Group tax rate for business years 2010 and 2009 is as follows:

€ thousands	2010	2009
<b>Result before income tax</b>	<b>2,981</b>	<b>-1,945</b>
<b>Tax expenditure at recognized tax rate of 30%</b>	<b>894</b>	<b>-583</b>
<b>Reconciliation to reported tax expenditure</b>		
Actual income tax, out-of-period	436	-185
Deferred income tax, out-of-period	0	112
Tax loss carryforwards originating from previous years and activated this year	-60	0
Used, non-capitalized tax loss carryforwards	-478	0
Tax loss carryforwards, not capitalized	0	494
Non-taxable investment grants	-145	-140
Non-deductible operating expenses	12	36
Other	12	-12
<b>Tax expenditure</b>	<b>671</b>	<b>-278</b>

As at the reporting date, the deferred income tax is as follows:

€ thousands	Consolidated financial statement		Consolidated profit and loss account	
	2010	2009	2010	2009
Loss carryforwards	718	0	6	0
Tangible assets	106	99	7	99
Financial assets	1	0	1	0
Inventories	12	0	12	0
Other provisions	110	64	6	43
Deferred income tax claims	947	163	32	142
Orders on hand acquired through business combination	54	0	33	0
Self-produced development assets	83	0	-83	0
Adjustment to fair value upon acquisition (developments)	290	117	28	6
Tangible assets	136	145	9	10
Other provisions	82	146	63	-146
Liabilities to affiliated companies	529	0	0	0
Deferred income tax payables	1,174	408	50	-130
<b>Deferred income tax revenue</b>			<b>82</b>	<b>12</b>

The specified income tax comprises all income tax paid or payable in the relevant countries as well as all deferred taxes. The deferred income tax claims relate to provisions of cash flow hedges to the value of €40,000, which were reported outside the period result.

The income tax for 2010 and 2009 comprises corporate tax, trade tax, solidarity tax and the relevant foreign taxes. In the Federal Republic of Germany, the applicable corporate tax rate on

distributed and retained profit is 15%. The corporate tax is also subject to a solidarity surcharge of 5.5%. Trade tax is levied at either 11.55% or 14.35%, depending on the collection rate of the relevant municipality.

Since current tax planning foresees no significant short/medium-term impact of foreign subsidiary results on the Group's earnings, the potential effects of deviating foreign tax rates are disregarded. Correspondingly, no loss carryforwards from foreign subsidiaries are capitalized. The loss carryforwards of PSS amount to €457,000 (2009: €434,000), and will lapse after 20 years. The estimated tax loss carryforwards of domestic subsidiaries will not lapse and amount to €3.709 million (2009: €655,000) with regard to corporate tax and €3.562 million (2009: €890,000) with regard to trade tax. These are included in the assessment in the amount of €2.393 million and capitalized as deferred tax claims. The loss carryforwards are estimated as no tax statements have been received. The increase in loss carryforwards over the previous year is wholly attributable to the acquisition of FST.

## 24. Earnings per Share

To calculate the undiluted earnings per share, the result attributable to bearers of ordinary shares in the parent company is divided by the weighted average number of shares in circulation over the course of the year.

To calculate the diluted earnings per share, the result attributable to bearers of ordinary shares in the parent company is divided by the weighted average number of shares in circulation over the course of the year plus the weighted average number of ordinary shares resulting from the conversion of all potential shares with dilutive effect into ordinary shares. In the case of a negative result per share, the potential ordinary shares with a dilutive effect are protected against dilution, which results in an equal number of dilutive and non-dilutive shares in the 2009 business year. As at 12/31/2009, SIS has issued a total of 396,500 stock options, which may dilute future net earnings per share. In the case of a positive result in the 2009 business year, the dilutive effect would have equated to 2,212 ordinary shares.

The following table lists the amounts serving as the basis for calculating the undiluted and diluted earnings per share for 2010:

€ thousands, unless specified otherwise

Result attributable to bearers of ordinary shares in parent company	2,226
Weighted average number of ordinary shares for calculating the undiluted earnings per share	6,626
Dilutive effect: stock options	15
Weighted average number of ordinary shares adjusted for dilution	6,641

In the period between the reporting date and the creation of the consolidated financial statement, no transactions involving ordinary shares or potential ordinary shares took place.

## 25. Notes on Cash Flow Statement

In accordance with IAS 7 "Cash flow statement", the SIS Group reports its cash flow from operating activities using the indirect method, whereby the profit or loss for the period is adjusted to reflect the effects of non-cash transactions, the accruals resulting from cash inflows and outflows from past or future operating activities as well as the income and expense items relating to the cash flow from investment and financing activities. The reconciliation is performed on the basis of the operating result, so that interest and tax payments are recognized as separate items within the operating cash flow.

Cash and cash equivalents are defined on the basis of the company's cash management and include the liquid funds as well as short-term current account liabilities with credit institutions. This results in the following composition of cash and cash equivalents:

€thousands	2010	2009
Liquid funds	14,604	17,102
Current account liabilities	-546	-450
	<b>14,058</b>	<b>16,652</b>

## 26. Notes on Statement of Changes in Equity

The company made no dividend payments in 2010 (2009: €0k).

## 27. Contingent Liabilities and Other Financial Obligations

(1) In future, lawsuits and claims from litigation arising from the ordinary course of business could be asserted against affiliated companies. The resulting risks are being analyzed to determine the likelihood of their occurrence. Even though the outcome of such disputes cannot always be accurately predicted, the Board does not foresee the occurrence of any significant liabilities.

(2) Financial commitments also result from the rental of office space and clerical equipment, the leasing of cars, office technology and buildings as well as the allocations from contribution-based pension plans. The lease agreements have an average term of between 3 and 20 years, with renewal or purchase options only provided for building leases. The lessee undertook no obligations upon signing these lease agreements.

The other financial obligations resulting from the above are as follows:

€thousands	2011	2012 to 2015	From 2016
Rental and leasing expenses	1,265	2,464	5,718
Contribution-based pension plans	99	336	284
	<b>1,364</b>	<b>2,800</b>	<b>6,002</b>

Rental and leasing expenditure over the remaining total contract term amounts to €10,166 million (previous year: €9,694 million). In the 2010 business year, rental and leasing expenses of €1,164 million (previous year: €952,000) were recognized in profit and loss.

## 28. Reporting in Accordance with IFRS 8

The Group consists of multiple legal sub-entities, the operating results of which are monitored separately by management in order to make decisions regarding the allocation of resources and to determine the profitability of the entities. These business units do not represent segments as defined by IFRS 8. The other data stipulated by IFRS 8 is provided below:

### Geographical segments

#### Sales

€thousands	2010	2009
Germany	21,928	18,376
Europe	15,653	8,518
USA	3,576	1,325
Other	4,075	1,988
	<b>45,232</b>	<b>30,207</b>

The information on segment revenue is structured by customer location.

Non-current assets and investments therein apply almost exclusively to Germany, with the USA only accounting for a relatively insignificant proportion.

Sales of €4.834 million were achieved with one customer in the 2010 business year, which equates to an 11% share of total sales.

## 29. Transactions Between Affiliated Companies and Individuals

Transactions with individuals or companies that may be influenced by or may exert an influence over the reporting company must be declared, provided that the relevant transactions are not already recognized in the consolidated financial statement as a result of the inclusion of affiliated companies.

The following transactions were concluded with individuals or companies deemed to be close to the SIS Group:

### SIS Executive Board

Dr. Hans-Georg Giering, Deuben  
Dr. Ingo Stein, Berlin (since October 1, 2009)

In the 2010 business year, regular remuneration for the Executive Board members was as follows:

€thousands	Dr. Giering	Dr. Stein	Total	Previous year
Non-performance-based earnings	430	257	687	408
Performance-based earnings	206	50	256	0
<b>Total</b>	<b>636</b>	<b>307</b>	<b>943</b>	<b>408*</b>

\* Dr. Stein was appointed as CFO on October 1<sup>st</sup>, 2009.

The non-performance-based remuneration also includes the financial benefits gained from the private use of company cars as well as the employer's contributions to health and care insurance.

In addition, payments totaling €108,000 (previous year: €90,000) were made to contribution-based pension plans for the board members which, in combination with the granted stock options, represent remuneration components with a long-term incentive effect.

In the 2009 business year, Dr. Giering received assurances that a change of control at SIS would result in payout of the cash value of the future remuneration stipulated in the existing employment contract. This remuneration is limited to three annual salaries. Furthermore, the higher amount from the previous and current year's profit-sharing bonuses is also taken into account. These payments will be made if the Supervisory Board cancels the appointment of Dr. Giering within six months of the change of control or at Dr. Giering's request.

In 2010, Board member Dr. Giering was awarded 20,000 stock options (previous year: 50,000) as part of the 2009 stock option plan (conditional capital VI), while Board member Dr. Stein was granted 10,000 stock options (previous year: 30,000). The options, which have an exercise price of €7.20 and a term of eight years, can only be exercised after a three-year blocking period. The stock options valuing €77,000 (previous year: €260,000), which were granted to the Executive Board in 2010, have been fully recognized in profit and loss. These remuneration components with a long-term incentive effect are not included in the above table. The total subscription rights held by the Executive Board as at the reporting date amount to 190,000 (2008: 160,000). Dr. Kriegel, a former Board member, still holds 80,000 Stock options as at the reporting date (2009: 80,000), which, under the terms of his employment contracts, have not lapsed as a result of his departure.

In 2010, the Board members received non-performance-based remuneration to the value of €687,000 (2009: €408,000), performance-based remuneration of €256,000 (2009: €0k) and remuneration components with long-term incentive effect amounting to €185,000 (2009: €350,000). No benefits relating to the termination of employment contracts were granted.

No other remuneration was received by the Board members or their surviving dependents in the business year.

### **SIS Supervisory Board**

In 2010, the remuneration of the Supervisory Board members, including attendance fees, amounted to €42,000 (2009: €81,000). The Supervisory Board remuneration and attendance fees, which had not been paid as at the reporting date, amounted to €43,000, of which €24,000 related to 2008 and 2009 and the rest to 2010.

No stock options were granted to Supervisory Board members.

Dr. Besse is a partner in the law firm of Hogan & Hartson Raue LLP and now Hogan Lovells International LLP. In the 2010 business year, the amount of €283,000 (2009: €38,000) was paid for services rendered by Hogan & Hartson Raue LLP and Hogan Lovells International LLP. As at December 31, 2010, accrued liabilities exist for unpaid invoices amounting to €192,000.



## Other individuals and companies close to the Group:

Heimann Sensor GmbH, Dresden (affiliated company, 24.9% interest)

€ thousands	2010	2009
Sales revenue of MPD with Heimann Sensor GmbH	222	210
<b>Total</b>	<b>222</b>	<b>210</b>

€ thousands	2010	2009
Receivables from Heimann Sensor GmbH	24	55
<b>Total</b>	<b>24</b>	<b>55</b>

Vereta GmbH, Einbeck (affiliated company, 24.9% interest)

As part of a participation agreement, SIS has undertaken to contribute to the capital reserves of Vereta GmbH on the basis of a milestone plan. These obligations are recorded as other short-term liabilities in the amount of €300,000 (2009: €0k).

## 30. Finance Risk Management

### Risk management for financial instruments

As the Group is active on an international level, it is exposed to market risks resulting from fluctuating exchange rates. The company is also partially financed with bank loans, which gives rise to interest rate risks. The company has protected itself against the latter by means of hedging transactions, while the foreign currency risks are reduced by the independent operations of PSS. In addition to accounts receivable, the company's main financial instruments are made up of liquid funds and bank liabilities. The aim of these instruments is to finance the Group's operations, with the main dangers posed by default, liquidity, exchange rate, interest rate and fair value risks.

The main financial instruments employed by the Group – with the exception of derivative financial instruments – comprise bank loans and overdraft facilities, finance lease and hire purchase agreements as well as cash funds and other short-term deposits. The primary purpose of these financial instruments is to finance the Group's business activities. The Group also has a number of other financial assets and accounts receivable resulting directly from its business activities.

In addition, the Group also engages in derivative transactions, interest swaps for the management of interest rate risks being one particular example.

### Fair value risk

The fair value of financial assets and liabilities is reported as the amount at which the relevant instrument may be exchanged between willing business partners in a current transaction (with the exception of forced sale or liquidation). The methods and assumptions used to determine fair values are as follows:

Due to their short terms, cash funds and short-term deposits, accounts receivable, accounts payable and other short-term liabilities are very close to their book value.

The fair value of unlisted instruments, bank loans and other financial liabilities, obligations resulting from finance lease agreements and other long-term financial obligations is estimated by discounting the future cash flows on the basis of interest rates currently available for borrowed capital with comparable conditions, credit risks and residual terms.

The Group arranges derivative financial instruments with different parties, particularly financial institutions with good credit ratings. Interest rate swaps and caps are derivatives valued by means of a procedure that employs input parameters observable on the market. Some of the most commonly used valuations methods are the forward price and swap models based on cash value calculations. The models include a variety of variables, such as the creditworthiness of the business partners, foreign currency and forward exchange rates, yield curves and future rates of the underlying raw materials. The marked-to-market derivative position less the credit status adjustment attributable to the default risk of the opposite party applies as at December 31, 2010. In the case of a derivative hedge, changes to the default risk of the opposite party had no significant impact on the assessment of the effectiveness of the hedging relationship and other financial instruments recorded at fair value.

### Fair value hierarchy

The Group employs the following hierarchy to determine and list the fair value of financial instruments for each valuation method:

- Level 1: Listed (unadjusted) prices on active markets for identical assets or liabilities.
- Level 2: Methods with which all input parameters with a significant effect on the reported fair value are observable either directly or indirectly.
- Level 3: Methods that employ input parameters with a significant effect on the reported fair value and that are not based on observable market data.

As at December 31, 2010, SIS has recognized specific assets at fair value by using level 2 valuation methods. The liabilities in question are a number of interest rate swaps.

As at the reporting date of December 31, 2010, no rebookings had occurred between fair value assessments of levels 1 and 2, nor had any rebookings been made to or from fair value assessments of level 3.

### Interest rate swaps and caps

The Group uses interest rate swaps and an interest rate cap to hedge the risk of changing interest rates resulting from its bank liabilities.

€ thousands	Payments		Reference amount		Fair value	
	SIS pays	SIS receives	2010	2009	2010	2009
<b>Interest rate swaps</b>						
Loan €1.5 million I	3.63 %	EURIBOR	563	750	-20	-26
Loan €1.5 million II	3.63 %	EURIBOR	563	750	-20	-27
Loan €2 million I	4.43 %	EURIBOR	0	2,000	0	-67
Loan €3 million II	3.56 %	EURIBOR	2,143	2,571	-93	-89
<b>Interest rate cap</b>						
Loan €2 million II	Max. 4.0 %		400	800	0	0

The specified fair values are based on the market values of equivalent financial instruments on the reporting date (level 2 in fair value hierarchy). The interest rate swaps were implemented to hedge cash flow risks and have been deemed effective. The fair values have therefore been recognized in equity. The interest rate cap was implemented to hedge cash flow risks and has been deemed effective.

### Interest rate sensitivity

The Group faces a risk of fluctuating market interest rates, resulting mainly from interest-bearing liquid funds as well as short-term liabilities subject to variable interest rates. The following table shows the sensitivity of the Group result before taxes to a potential change in interest rates that can be deemed reasonably foreseeable (based on the resulting effects on variable-interest loans). All other variables remain constant and Group equity is not affected.

	Increase/decrease In basis points	Effects on result before taxes € thousands
<b>2010</b>	+15	20
	-10	-14
<b>2009</b>	+15	11
	-10	-7

### Currency sensitivity

In the 2010 business year, the Group achieved sales of \$5,474 million (US dollars). Liquid funds as at 12/31/2010 amount to \$1,508 million. The effect of exchange rate fluctuations on the result before taxes would be +/-€70,000 in the case of a change of +/-0.01 €/€ or +/-€698,000 with a change of +/-0.10 €/€.

### Liquidity risk

The Group continuously monitors the risk of a liquidity squeeze by means of a planning tool, which considers the terms of financial investments and assets (e.g. receivables, other financial assets) as well as expected cash flow from business activities.

As at December 31, 2010, the Group's financial liabilities exhibit the following maturities. All data is provided on the basis of contractual, non-discounted payments.

Business year as at 12/31/2010	Maturity			Total
	up to 1 year	1 to 5 years	Over 5 years	
<b>€ thousands</b>				
Interest-bearing loans	5,089	8,271	1,138	14,498
Accounts payable	3,778	0	0	3,778
Financial derivatives	68	79	0	147
Other short-term liabilities	2,850	0	0	2,850
<b>Total</b>	<b>11,785</b>	<b>8,350</b>	<b>1,138</b>	<b>21,273</b>

Business year as at 12/31/2009	Maturity			Total
	up to 1 year	1 to 5 years	Over 5 years	
<b>€ thousands</b>				
Interest-bearing loans	6,467	6,365	2,067	14,899
Accounts payable	1,904	0	0	1,904
Financial derivatives	130	120	2	252
Other short-term liabilities	2,098	0	0	2,098
<b>Total</b>	<b>10,599</b>	<b>6,485</b>	<b>2,069</b>	<b>19,153</b>

## Capital management

The primary aim of the Group's capital management is to ensure that it maintains a high credit rating and excellent equity ratio in order to support its business activities and maximize shareholder value. Minimum equity ratios are included as conditions in some of the loan agreements. The equity ratio also affects the credit rating, which is one of many parameters that defines the size of the applicable interest rate. The credit rating is also an important factor affecting a customer's choice of suppliers.

The Group monitors its capital on the basis of the equity ratio:

€thousands	2010	2009
Equity capital	38,008	35,383
Total assets	68,109	60,992
Equity ratio	56 %	58 %

The company has met the minimum capital ratios stipulated by lenders in the relevant credit agreements.

## 31. Financial Instruments

The SIS Group has only reported derivative financial instruments at fair value (see note on interest rate swaps and caps under item 2). For all other financial instruments, the book value corresponds to the fair value or the relevant fair values are specified in the notes for the individual balance sheet items.

## 32. Other Notes Stipulated by HGB Regulations

The following notes contain additional information constituting a mandatory component of the appendix in accordance with the German Commercial Code (HGB).

The following notes contain additional information constituting mandatory components of the appendix in accordance with the German Commercial Code (HGB).

### Executive Board

#### Members of the Executive Board

Dr. Hans-Georg Giering, Deuben	CEO
Dr. Ingo Stein, Berlin	CFO

## Supervisory Board

### Members of the Supervisory Board

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Ernst Hofmann, Wiesbaden  
*Management consultant*

since June 18, 2002  
Chairman since May 27, 2008

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Dr. Dirk Besse, Berlin  
*Lawyer*

Deputy Chairman since June 9, 2009

Membership in statutory supervisory boards:

- MetaDesign AG, Berlin (Chairman)
  - LBi Germany AG, Cologne (Chairman)
- 

Götz Gollan, Kelkheim/Taunus  
*Board member of equinet Bank AG*

since June 17, 2010

Membership in statutory supervisory boards:

- Capitell Vermögens-Management AG, Frankfurt
  - Crossgate AG, Munich (Chairman)
- 

### Former members of the Supervisory Board

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Dr. Rainer Marquart, Mannheim  
*Management consultant*

until May 17, 2010

Membership in statutory supervisory boards:

- 3-pod AG, Mannheim (Chairman) until June 2010
  - Ice Age Ice AG, Maintal
  - Vwd Vereinigte Wirtschaftsdienste AG, Frankfurt until May 2010
- 

## Data pursuant to § 160 Par. 1 No. 8 AktG (AktG = German Stock Corporation Act)

During the 2009 business year and prior to the publication of this financial report, SIS received the following communications which, in accordance with § 21 Par. 1 WpHG, were deemed relevant at the time of creation of the appendix and consequently published pursuant to § 26 Par. 1 WpHG (WpHG = German Securities Trading Act):

Party with obligation to report Name/Company	Place of residence/ Registered office	Date of notification	Date of reaching threshold	Date of publication	Threshold value reached/exceeded/decreased/	Level of share of voting rights at time of notification % Voting rights	Attribution according to
(A) For the purpose of clarification and in amendment to previous notifications published on February 24, 2009; February 26, 2009; March 31, 2009 and November 11, 2009 Daniel Hopp notified us on February 22, 2010 about the companies which are controlled by him as follows:							
1. Daniel Hopp	Germany	22.02.2010	06.02.2009	24.02.2010 <sup>1</sup>	3% exceeded	3.56 % 139,108	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Daniel Hopp:</b>						3.52 % 137,238	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Mr Daniel Hopp and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG - Hopp Verwaltungs GmbH							
2. Daniel Hopp	Germany	22.02.2010	24.02.2009	24.02.2010 <sup>2</sup>	5 % exceeded	5.27 % 205,602	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Daniel Hopp:</b>						5.22 % 203,732	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Mr Daniel Hopp and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG - Hopp Verwaltungs GmbH							
3. Daniel Hopp	Germany	22.02.2010	26.03.2009	24.02.2010 <sup>3</sup>	10 % exceeded	13.65 % 602,898	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Daniel Hopp:</b>						13.61 % 601,028	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Mr Daniel Hopp and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG - Hopp Verwaltungs GmbH							
4. Daniel Hopp	Germany	22.02.2010	06.11.2009	24.02.2010 <sup>4</sup>	15%, 20%, 25% exceeded	<b>29.90 %</b> <b>1,981,143</b>	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Daniel Hopp:</b>						29.87 % 1,979,273	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Mr Daniel Hopp and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG - Hopp Verwaltungs GmbH							
(B) Furthermore, on February 22, 2010 the companies which are controlled by Mr Daniel Hopp notified us as follows:							
1.1 Hopp Verwaltungs GmbH	Mannheim, Germany	22.02.2010	06.02.2009	24.02.2010	3% exceeded	3.52 % 137,238	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Hopp Verwaltungs GmbH:</b>						3.52 % 137,238	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG							
1.2 Hopp Beteiligungsgesellschaft mbH & Co. KG	Mannheim, Germany	22.02.2010	06.02.2009	24.02.2010	3% exceeded	3.52 % 137,238	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Hopp Beteiligungsgesellschaft mbH &amp; Co. KG:</b>						3.52 % 137,238	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholder, which is controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG and is holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH							
2.1 Hopp Verwaltungs GmbH	Mannheim, Germany	22.02.2010	24.02.2009	24.02.2010	5 % exceeded	5.22 % 203,732	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Of which to be attributed to Hopp Verwaltungs GmbH:</b>						5.22 % 203,732	§ 22 Par. 1 Sent. 1 No. 1 WpHG
Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to:							
- DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG							

Party with obligation to report Name/Company	Place of residence/ Registered office	Date of notification	Date of reaching threshold	Date of publication	Threshold value reached/exceeded/ decreased/	Level of share of voting rights at time of notification		Attribution according to
						%	Voting rights	
2.2 <b>Hopp Beteiligungsgesellschaft mbH &amp; Co. KG</b> <b>Of which to be attributed to Hopp Beteiligungsgesellschaft mbH &amp; Co. KG:</b> Voting rights of the following shareholder, which is controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG and is holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to: - DAH Beteiligungs GmbH	Mannheim, Germany	22.02.2010	24.02.2009	24.02.2010	5 % exceeded	5.22 %	203,732	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						5.22 %	203,732	
3.1 <b>Hopp Verwaltungs GmbH</b> <b>Of which to be attributed to Hopp Verwaltungs GmbH:</b> Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to: - DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG	Mannheim, Germany	22.02.2010	26.03.2009	24.02.2010	10 % exceeded	13.61 %	601,028	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						13.61 %	601,028	
3.2 <b>Hopp Beteiligungsgesellschaft mbH &amp; Co. KG</b> <b>Of which to be attributed to Hopp Beteiligungsgesellschaft mbH &amp; Co. KG:</b> Voting rights of the following shareholder, which is controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG and is holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to: - DAH Beteiligungs GmbH	Mannheim, Germany	22.02.2010	26.03.2009	24.02.2010	10 % exceeded	13.61 %	601,028	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						13.61 %	601,028	
4.1 <b>Hopp Verwaltungs GmbH</b> <b>Of which to be attributed to Hopp Verwaltungs GmbH:</b> Voting rights of the following shareholders, which are controlled by Hopp Verwaltungs GmbH and are holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to: - DAH Beteiligungs GmbH - Hopp Beteiligungsgesellschaft mbH & Co. KG	Mannheim, Germany	22.02.2010	06.11.2009	24.02.2010	15%, 20% and 25% exceeded	29.87 %	1,979,273	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						29.87 %	1,979,273	
4.2 <b>Hopp Beteiligungsgesellschaft mbH &amp; Co. KG</b> <b>Of which to be attributed to Hopp Beteiligungsgesellschaft mbH &amp; Co. KG:</b> Voting rights of the following shareholder, which is controlled by Hopp Beteiligungsgesellschaft mbH & Co. KG and is holding 3 % or more in the voting rights of Silicon Sensor International AG, Berlin, Germany are to be attributed to: - DAH Beteiligungs GmbH	Mannheim, Germany	22.02.2010	06.11.2009	24.02.2010	15%, 20% and 25% exceeded	29.87 %	1,979,273	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						29.87 %	1,979,273	
<b>Highclere International Investors Ltd.</b> <b>Of which to be attributed to Highclere International Investors Ltd.:</b> Voting rights are attributed to Highclere International Investors Ltd. by: - of Highclere International Investors Smaller Companies Fund - of Highclere (Jersey) International Smaller Companies Fund	London, UK	20.07.2010	15.07.2010	21.07.2010	3% decreased	2.26 %	149,856	§ 22 Par. 1 Sent. 1 No. 1 WpHG
						2.26 %	149,856	
<b>Highclere International Investors Smaller Companies Fund</b>	Westport, USA	20.07.2010	15.07.2010	21.07.2010	3% decreased	<b>2.22 %</b>	<b>147,160</b>	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Upolu Holding Inc.</b>	Tortola, British Virgin Islands	26.09.2010	21.08.2010	27.09.2010	3% exceeded	<b>3.15 %</b>	<b>208,710</b>	§ 22 Par. 1 Sent. 1 No. 1 WpHG
<b>Voit Foundation, c/o Tremaco Trust reg.</b>	Eschen, Principality of Liechtenstein	16.11.2010	06.08.2010	17.11.2010	3% exceeded	<b>3.03 %</b>	<b>200,828</b>	§ 22 Par. 1 Sent. 1 No. 1 WpHG

<sup>1</sup> Amendment of the publication dated 02/24/2009

<sup>2</sup> Amendment of the publication dated 02/26/2009

<sup>3</sup> Amendment of the publication dated 03/31/2009

<sup>4</sup> Amendment of the publication dated 11/11/2009

## Employees

The average number of employees in the 2010 business year was as follows:

	2010 Employees	2009 Employees
Germany	314	288
Other countries	9	8
	<b>323</b>	<b>296</b>

As at December 31, 2010, the Group employed a total of 341 staff (December 31, 2009: 272 staff).

## Fee of the auditor

€thousands	2010	2009
Audit services	88	76
Other assurance services	40	0
Other services	107	18
	<b>235</b>	<b>94</b>

The annual audit fees comprise the audit of SIS, the SIS consolidated financial statement and all major subsidiaries within the SIS Group.

## Waiver of disclosure pursuant to § 264 Sec. 3 HGB

The following domestic subsidiaries with the legal status of a limited liability corporation have met the conditions for claiming exemption as per § 264 Sec. 3 HGB and have thus exercised the option not to publish annual financial statements.

Lewicki microelectronic GmbH, Oberdischingen

## 33. Corporate Governance

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The company has submitted its declaration of conformity as per § 161 of the German Stock Corporation Act (AktG) and made it permanently available on the company website.

Berlin, March 14, 2011

Silicon Sensor International AG

Dr. Hans-Georg Giering  
CEO

Dr. Ingo Stein  
CFO



We have given the following audit certificate for the annual consolidated financial statements and, the business year management report which has been combined with the report of the company:

"We have audited the consolidated financial statement drawn up by Silicon Sensor International AG, Berlin consisting of the balance sheet, profit and loss statement, cash flow statement, statement of changes in equity and notes – including segment information, as well as the group annual report which was combined with the company's annual report for the business year from Jan. 1 to Dec. 31, 2009. Drawing up consolidated financial statements and group annual reports pursuant to IFRS as required in the EU and, in addition, under the provisions of commercial law pursuant to Sec. 315a, para. 1 HGB, is the responsibility of the company's legal representatives. It is our duty to assess the consolidated financial statement and group annual report based on our audit. In addition, we were asked to assess whether the consolidated financial statement conformed to IFRS as a whole.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Berlin, March 14, 2011

Ernst & Young GmbH  
Wirtschaftsprüfungsgesellschaft

Plett  
Wirtschaftsprüfer  
[German Public Auditor]

Bühning  
Wirtschaftsprüfer  
[German Public Auditor]

## Voluntary submissions

As at December 31, 2010, the following shares in the company (no-par value) were held by board members.

Dr. Hans-Georg Giering (CEO)	45,000 shares (12/31/2009: 45,000)
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## Declaration of Compliance (balance sheet affidavit) in accordance with §§ 264 Par. 2 Page 3, 289 Par. 1 Page 5 HGB (No. 3)

We hereby affirm that, to the best of our knowledge, the picture presented in the annual financial statement and the consolidated financial statement using applicable accounting principles portrays a realistic impression of the company's and the Group's asset, financial and earnings status. We furthermore affirm that the business activities, including the operating result and the company's and the Group's situation, are presented in such a way in the statement of affairs and the Group statement of affairs as to give a realistic picture and describe the essential opportunities and risks of the expected development of the company and of the Group.

Berlin, March 2011

Silicon Sensor International AG

Dr. Hans-Georg Giering  
CEO

Dr. Ingo Stein  
CFO

## Declaration by the Executive Board and Supervisory Board of Silicon Sensor International AG on the recommendations of the "Government Commission on the German Corporate Governance Code" pursuant to § 161 of the German Stock Corporation Act

Subject to the exceptions described below, Silicon Sensor International AG is in conformity with the recommendations of the "Government Commission on the German Corporate Governance Code" announced by the Federal Ministry of Justice in the official section of the electronic Federal Gazette, specifically the version dated May 26, 2010 ("Code"). Furthermore, since its last declaration of conformity in March 2010 and with addition of October, 2010, the company has been in full compliance with the recommendations of the German Corporate Governance Code in the version of June 18, 2009, subject to the restrictions stated in the relevant annual declarations.

- As per **Item 3.8 Par. 3** of the code recommends the inclusion of a deductible in the D&O insurance for Supervisory Board members according to the specification for Board members.

*It is not intended to introduce a deductible for members of the Supervisory Board. From the point of view of the company it is easier to acquire qualified Supervisory Board members without deductible.*

- As per **Item 5.1.2 Par. 1** of the Code, the Supervisory Board is to work with the Executive Board to ensure long-term succession planning.

*No long-term succession planning is currently in place at the company, as this has never been considered necessary. However, long-term succession planning will be implemented in the future.*

- In accordance with **Items 5.3.1, 5.3.2 and 5.3.3** of the Code, the Supervisory Board is to form committees where appropriate.

*The Supervisory Board of Silicon Sensor International AG does not form committees. Given the size of the Supervisory board (three members) the company does not see any advantage in the formation of committees.*

- In **Item 5.4.6 Par. 2** of the Code recommends that members of the Supervisory Board also be remunerated with performance-based elements.

*The members of the Supervisory Board of Silicon Sensor International AG do not currently receive any performance-based remuneration. The company views a fixed remuneration as more suitable to account for the control function of the Supervisory Board which should be independent from the financial results.*

- As per **Item 7.1.2 Sent. 4** of the Code, the consolidated financial statement is to be made publically available within 90 days after the end of the business year and the interim reports within 45 days of the end of the reporting period.

*The interim reports of Silicon Sensor International AG are not regularly published within 45 days, as the company considers publication within the deadlines stipulated by the Frankfurt stock exchange entirely sufficient.*

Berlin, March 25<sup>th</sup>, 2011

Silicon Sensor International AG

Dr. Hans-Georg Giering  
CEO

Dr. Ingo Stein  
CFO

Ernst Hofmann  
Chairman of the Supervisory Board

## REPORT OF THE SUPERVISORY BOARD

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From the point of view of the Supervisory Board, the key challenge facing the Silicon Sensor Group in 2010 was to continue with the strategic alignment set out at the end of 2008 to become a leading industrial enterprise for customized sensor solutions as well as to adapt its activities and operations to the significant sales growth.

The main factors contributing to this in 2010 were:

- The focus of all employees on the ramp up of production in the wake of the crisis
- The successful production launch for new products
- The extension of the product portfolio to include systems
- The expansion of the Group into complementary technological fields
- The continued improvement of the company's financial resources.

With these fundamental objectives in mind and on the basis of the articles of association and rules of procedure, the Supervisory Board continually advised the Executive Board, regularly checking the economic efficiency, legitimacy and legality of the Executive Board's business administration.

This included monitoring and auditing the measures agreed as part of the strategic planning

- To acquire complementary technological fields in a bid to ensure growth and
- To take steps to improve delivery capacity in the face of a sharp rise in sales.

2010 was all about creating the prerequisites for expediting the continued positive business development of the Silicon Sensor Group.

The Supervisory Board regularly checked the business performance of both Silicon Sensor International AG and its subsidiaries, and satisfied itself of the correctness of the Group's business administration. During a total of four face-to-face meetings, three phone conferences and the constitutive meeting of June 17, 2010, the Supervisory Board aired its questions concerning business policy as well as strategies for growth and internationalization with the Executive Board.

In the March 2010 meeting, the consolidated financial statement and the company's annual accounts were discussed in detail with the auditors from the Berlin branch of Ernst & Young GmbH, and were subsequently approved and declared. In addition, new rules of procedure were drawn up for the Executive Board. The remuneration system for the Board and the appropriate nature of the Board member earnings were also reviewed.

In both cases, approval for the acquisition of First Sensor Technology GmbH and the stake in Vereta GmbH was unanimously granted outside of the regular meetings, following the provision of comprehensive information by the Executive Board and its thorough examination. By decree of the company's general meeting on June 17, 2010, Mr. Götz Gollan, CFO of Equinet Bank AG, was elected to the Supervisory Board to replace Dr. Rainer Marquart, who had decided to step down. On behalf of all shareholders, the Supervisory Board would like to thank Dr. Marquart for his work and contributions to the company's success.

In August 2010, the Supervisory Board briefed itself on Microelectronic Packaging Dresden GmbH by visiting the subsidiary company's premises. In addition to looking at the current business situation, it also studied our company's cost reduction program and system for the early detection of risks, as well as accounting topics.

In December 2010, the medium-term plans and the budget for the 2011 business year for the Silicon Sensor Group were approved following extensive discussion.

The Supervisory Board did not form any separate committees, but always advised as a complete entity. All members of the Supervisory Board attended all meetings – within the timeframes of their appointment. In addition, a number of talks were held between the Executive Board and the Chairman and other members of the Supervisory Board.

The efficiency of the tasks performed by the Supervisory Board was checked on a regular basis and one element to be improved as a result was the reporting process. The Supervisory Board also dealt with possible conflicts of interest of its member, Dr. Dirk Besse. Dr. Besse is the partner of a law firm that acts on behalf of the company. In each case, the Supervisory Board agreed to the commissioning of the firm without the participation of Dr. Besse in accordance with § 114 of the German Stock Corporation Act (AktG).

Following extensive discussion, the Executive Board and Supervisory Board issued the declaration of conformity in accordance with § 161 AktG (Declaration of Conformity with the German Corporate Governance Code).

The consolidated financial statement and the annual financial statement dated December 31, 2010, both accompanied by a statement of affairs, were audited by the Berlin branch of Ernst & Young GmbH accountancy firm and given an unqualified audit opinion. The annual and consolidated financial statements and statements of affairs were made available to the Supervisory Board, which checked them and then discussed them in detail at its financial statements meeting on March 25, 2011 in the presence of the auditors, who were able to provide explanations. The Supervisory Board approved the 2010 annual financial statement, which is hereby confirmed. The Supervisory Board noted the 2010 consolidated annual financial statements without objections and approved them.

The Supervisory Board thanks the Executive Board and all employees for their commitment and outstanding efforts, and wishes them every success with the challenges of the 2011 business year.

We would like to extend special thanks to our shareholders – old and new – who continue to place their trust in the company.

Berlin, March 2011

Silicon Sensor International AG  
Supervisory Board

Ernst Hofmann  
Chairman

## DECLARATION

This report contains statements with a predictive nature. This consolidated financial statement does not represent an encouragement to purchase shares in Silicon Sensor International AG, but is simply intended to provide information about possible future developments of the company. All future-related specifications in this consolidated interim report were produced in the context of probability-based planning and represent statements concerning the future that cannot be guaranteed.

## FINANCIAL CALENDAR 2011

Date	Topic	Location
30.03.2011	Publication of consolidated annual financial report 2010, balance sheet press conference	
26.05.2011	Publication of consolidated quarterly financial report Q1/2011	
09.06.2011	Annual general meeting	Penta Hotel Berlin Köpenick, Grünauer Str. 1, 12557 Berlin
25.08.2011	Publication of consolidated semi-annual financial report Q2/2011	
29. - 31.08.2011	Analysts' Conference SCC Small Cap Conference	Frankfurt am Main
18.11.2011	Publication of consolidated quarterly financial report Q3/2011	
21. - 23.11.2011	Equity forum	Congress Center at Messe Frankfurt, Frankfurt am Main

This consolidated annual financial statement is available in German and English.  
Both versions are available for download on the internet at [www.silicon-sensor.com](http://www.silicon-sensor.com).

### Silicon Sensor International AG

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Symbol: SIS

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